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# EXAMINATION OF CASES OF INTERFACING BETWEEN NATIONAL ECONOMIC POLICIES AND REGIONAL AND SUBREGIONAL COOPERATION

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# INTRODUCTION

1. Pursuant to the Programme Budget 1994-1995[1], this report analyzes the interfacing between the functioning of national economic policies and regional/subregional cooperation. The discussion of this study is organized topic by topic. In each topic, the selected cases of groupings of developing countries are highlighted in order to verify the general arguments and to formulate some generalized conclusions.

2. Chapter I analyzes the different approaches of the relevant literature to the concept of interfacing. Having considered the different options of international cooperation, the study argues for cooperation and policy coordination between corresponding Government bodies and the private sectors of developing countries. Chapter II examines three major areas of interfacing: (a) trade and trade-related policies, including the tariff measures, the rules, systems and procedures of trade, and technical regulations and requirements; (b) investment policies, including cooperation in attracting foreign investment as a region as a whole, the facilitation of cross-border business activities among the regional partners and the applicability of multilateral rules; and (c) monetary and fiscal policies, including consultations on macroeconomic issues, the coordination of rules, convergence of key variables and the parallel avenue of monetary cooperation through the transformation of payments arrangements into monetary cooperation zones. As the experiences analyzed in Chapter II have traced a lack of appropriate mechanisms or channels for cooperation, Chapter III intends to review the would-be implications and basic principles of improved regional interfacing among developing countries such as a practical, flexible bottom-up approach to regional decisions, the focus of the institutional structure on the national level, and proper prioritization of activities. As a conclusion of the study, Chapter IV argues that interfacing is a multi-faceted problem that needs to be addressed on a case-by-case basis.

[1] A/48/6 (Sect. 11A), 14 September 1993

# I. THE CONCEPT OF INTERFACING AND POSSIBLE POLICY REACTIONS

3. This study analyzes cases of interfacing between the conduct of national economic policies and regional or subregional commitments among developing countries. Interfacing in this regard may imply differences in national policies that would lead to policy conflicts, either fundamental or technical, or policy differences of which coordination would produce positive interaction among regional partner countries. It may also imply economic interdependence among countries in a region, or side-effects of economic policies of a country on another in the same region. Another situation where interfacing is said to occur is when a country incorporates the aspects or elements of regional cooperation into its own national policies.

4. The literature is rich on the issues of international cooperation, and particularly on the impact of global interdependence on major economies. It offers useful insights into the problems of coordination, though its focus is different from that of this study.

5. First, most of the literature surveys the case of international coordination among major industrialized countries. This report, in turn, analyzes cases of coordination among developing countries, and on a regional or subregional scale. Secondly, the literature is concentrated on monetary and financial coordination. For many developing countries, this is just one of the various equally important fields of coordination. Thirdly, the literature deals the implementation of cooperation plans and projects as a self-evident outcome of cooperation. In many instances, however, developing country cooperation schemes have faced difficulties in implementing the plans and projects for one reason or another.

6. With all these differences, there are some important points raised in the literature which are valid also for developing-country cooperation. Cooper (1985)[2] notes that, when a country found itself in a situation of interfacing, there are in principle three possible reactions to it. First, the country may revert to pre-cooperation status, regaining the policy freedom it has given up for the sake of cooperation. The second type of reaction is to find a way to circumvent the situation by taking alternative policy measures. Third is to try to coordinate the policies and cooperate with partner countries.

7. In trade policies, for example, the first reaction would imply raising tariffs to the pre-cooperation levels, the second would be to find other measures, such as non-tariff barriers, to nullify the conflict caused by the cooperation, and the third amounts to cooperation through mutual acceptance of agreed liberalization or other measures.

8. Cooper also cites another example of the second type of reactions - using alternative policy instruments - that countries may counter the effect of cooperation by applying policy measures in completely different areas where international cooperation is not developed. For example, in face of increasing constraint from regional or international agreements on trade, countries may opt to seek gains in other areas such as investment, which is not yet as regulated as trade. Such a measure may imply undercutting neighbouring countries in tax breaks offered

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[2] Cooper, Richard N. 1985. "Economic Interdependence and Coordination of Economic Policies," In R. W. Jones and P B. Kenen, eds., *Handbook of International Economics*, Vol. II. Amsterdam: North Holland, pp. 1195-1234.

to attract foreign direct investments.[3] If there is no long-term regional political commitment to coordination, the collective benefits of regional cooperation (such as improved stability) will be underproduced. Countries would be tempted to free ride on others' efforts without sharing the costs.[4]

9. When countries decide to coordinate their policies, whether internationally or regionally, they should agree on the goals, examine the relevant information, and decide on the joint actions to be taken to achieve these goals, the extent and the timing of these actions, the appropriate measures of burden-sharing if necessary. Additionally or alternatively, the cooperation or coordination can take the form of an agreed framework or regime. In such a case, each individual country has to decide its own actions within this framework or regime.[5]

10. There is a profound implication of the globalization of economies on cooperation efforts, as Governments today are having less and less margin of manoeuvre in responding to changing economic conditions. As the inter-relationships among national economies are deepened and widened, the globalization would increase the negative impact of beggar-thy-neighbour policies. Thus, there is now more merit to cooperation in mitigating such negative effects. One effective mode of cooperation in this globalized world is, hence, to jointly facilitate enterprise activities through coordination of rules and procedures. Given these developments, the involvement of the private sector in a bottom-up design and realization of regional/subregional cooperation seems now a *conditio sine qua non* of coordination.

11. There are several situations, however, where coordination attempts might face difficulties. First, there may be such differences in policy objectives among countries that they are proven to be irreconcilable. Secondly, countries may differ on the expected costs and benefits of - sharing or compensating mechanisms.

12. The literature also points out other factors: Feldstein (1988) argues, particularly on macroeconomic coordination for national autonomy, coordination may distract from necessary changes in domestic policies.[6] His argument, however, is based on the case of the United States of America, and he himself cautions that this does not necessarily apply to small and/or vulnerable countries. Dobson (1991) notes that there may be inadequate attention paid to differences within countries.[7]

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[3] See Kehoe, Patrick J. 1991. "Policy Co-operation among benevolent Governments may be Undesirable: An Extension," In Carraro et al., eds. *International Policy Co-ordination.* Oxford: Basil Blackwell, pp. 166-183.

[4] See Webb, Michael C. 1995. *The Political Economy of Policy Coordination. International Adjustment Since 1945.* Ithaca, N.Y.: Cornell University Press, 269 pp, referring to Charles P. Kindleberger.

[5] See Cooper, op. cit.

[6] Feldstein, Martin (1988) "Rethinking International Economic Coordination," *Oxford Economic Papers*, vol. 40, no. 2 (June), pp. 205-219.

[7] Dobson, Wendy, (1991) *Economic Policy Coordination: Requiem or Prologue?* Policy Analyses in International Economics 30, Institute for International Economics, Washington.

# II. AREAS OF INTERFACING

## A. Trade policies and other policies affecting trade

### 1. Regional preferential trade arrangements and national policies - tariffs

13. In the area of trade policies regional cooperation typically takes some form of preferential arrangements or schemes, including regional free trade areas or customs unions. Preferential arrangements generally implies mutual reduction of tariffs on certain products, while free trade area implies reducing them, in principle, for all products to zero, although normally there are some products exempted from this condition. Customs union implies, in addition, the participating countries have common external tariffs, i.e. the same tariff rates for trade external to the group.

14. One might immediately consider, then, that the interfacing between regional cooperation and national policies occurs when countries belonging to such arrangements are pursuing general trade liberalization with countries outside the arrangement, since this would lead to the erosion of preferential margins of the regional arrangements. When all the countries in the arrangement are liberalizing trade, however, this form of interfacing rarely becomes an issue or leads to policy conflicts, since both preferential arrangements and general trade liberalization essentially aim to achieve the same goal, i.e. facilitation of export expansion and import competition.

15. The real policy conflict occurs when countries of a regional arrangement have different national policy objectives, most likely in a limited segment of their trade policies. For example, policy conflict occurs between two countries when one country (Country A) aims at opening the market of certain products while another (Country B) attempts to protect its own market or the regional market of the same product.

16. In the above example, lowering of the general tariff rates by Country A can have a negative impact on the market shares of Country B in Country A, unless matching reductions in the preferential rates are made. If there is already free trade in this sector between these countries (i.e. no tariffs), this negative impact cannot be avoided. Whether this would lead to a serious obstacle to regional cooperation depends on several factors, namely: how important it is for Country A to liberalize markets in this sector (for example, if the products are important industrial inputs or not); how important the Country A market is to the exporters in Country B; and, how large the impact of liberalization would be on the market share, which depends on the extent of tariff reductions, price elasticities of demand for these products, etc.

17. More significantly, if tariffs are reduced in Country A to such an extent that the resulting sum of the general tariff rate of Country A and the preferential rate from Country A to B undercuts the general rate of Country B, the market in Country B itself would be threatened by the possible re-exporting through Country A. A direct way to avoid this problem is to raise the preferential rate from Country A to B, or to exempt it from the preferential arrangement. In this case, national policies are directly conflicting with the regional cooperation arrangement.

18. Another way to mitigate this problem is to utilize the rule of origin and apply different rates to the products originating inside and outside the region. This does not eliminate all the threats since, whether the rule adopts a percentage or process criteria, there still will be an element of tariff reduction for re-exports. However, this method will reduce such threats to a great extent while preserving the essence of regional cooperation arrangements.

19. This potential conflict between national and regional policies becomes more serious when countries aim to form a customs union. Since the customs union will have common external tariff, in principle, there is no room for countries to differ on rates applied to particular products. In other words, since a customs union essentially implies a common trade policy among the participating countries, any difference in policy objectives potentially would cause frictions. Introducing exceptions to the common external tariff may be technically possible, but this would take out a major benefit of the customs union, namely, the elimination of intra-regional customs process. Therefore, when there is a difference between national policy objectives among the member countries of a customs union, a deal must be negotiated with costs and benefits weighted and national interest conceded to some extent.

20. The article in Box 1 depicts an example of the difficulties faced in the negotiation of Mercosur - the customs union of Argentina, Brazil, Paraguay and Uruguay. In this case, a specific sector, i.e. high-tech industries, has surfaced as the area where national interests collide. On the one hand, Argentina wanted to open this sector to outside as much as possible, since it

**Box 1**
**Challenges for a Customs Union in the Press - MERCOSUR**

*(Financial Times, 5 August 1994)* - ***Mercosur four limp to customs union signing - Bruising talks on the South American trade pact***

The leaders of the four South American countries in the Mercosur trade pact will today put their names to an agreement removing the remaining obstacles to the implementation of a customs union on January 1 next year. ... Although it is only three years since the presidents of Argentina, Brazil, Paraguay and Uruguay signed a treaty calling for the creation of a common market by January 1995, reaching this objective has proved a long and arduous undertaking. ...

Argentina and Brazil .. could not agree on a similar arrangement for a range of high technology goods, mainly computers, telecommunications equipment and capital goods. They agreed more than a year ago that these goods - which account for 15 per cent of their trade - would receive separate treatment. However, they could not agree on how this would work. Argentina has abandoned attempts to build a high-technology industry behind tariff walls. Instead, it is encouraging its industries to import advanced equipment from the US and Japan by abolishing all import duties. The Brazilians have a larger intermediate-technology sector which they wish to build up, and refused to lower tariffs significantly.

In the end, Argentina has had to bow to the Brazilians' superior bargaining power and accepted a deal in which high-technology goods are to receive tariff protection of 14-16 per cent up to 1995. ...

In exchange, Argentina is understood to have gained concessions from Brazil which is granting exceptions from Mercosur's free trade rules for large parts of Argentina's manufacturing industry. Thus, Argentina's struggling steel, paper, textile, sugar and petrochemicals industries will all be protected from the full onslaught of larger and more efficient Brazilian competition. Brazilian imports will receive the same treatment as imports from outside the Mercosur area for five years.

**Table 1**
**The common external tariffs of the Mercosur and national tariffs to be converged as of February 1995**

| Country | Total number of items in the 8-digit tariff nomenclature | Number of national tariff items diverging from the common external tariff | As percentage of total tariff items |
|---|---|---|---|
| Argentina | 8779 | 1766 | 20.1 |
| Brazil | | 1326 | 15.1 |
| Paraguay | | 1598 | 18.2 |
| Uruguay | | 1606 | 18.3 |

Source: ECLAC secretariat

is a sector which greatly affects the productivity and competitiveness of the economy as a whole. On the other hand, Brazil wanted to protect its own high-tech industries. In order to protect the larger benefit entailed in the whole Mercosur package, a deal had to be made in the mid-way where Brazil has agreed to lower the external tariffs on high-tech products while Argentina has agreed to raise them from the zero level that had been applied to these products.

**Box 2**
**Challenges for a Customs Union in the Press - the Andean Group**

*(Financial Times, 12 May 1994)* - ***Andean Pact still split on outside tariff***

Trade is growing rapidly among the five countries of the Andean Pact but its member governments remain divided over an issue that has dogged them since the trade grouping was founded 25 years ago - a common external tariff. Preliminary estimates from the group - comprising Bolivia, Colombia, Ecuador, Peru and Venezuela with a combined gross domestic product of more than Dollars 130bn - show a 30 per cent jump in trade among its members in 1993 after an increase of 20 per cent in 1992. Intra-regional trade, including fuel products, reached a record Dollars 2.89bn last year, against only Dollars 1bn as recently as 1989. ...

... The common tariff was supposed to have been effective at the start of 1992, but a decision has been postponed several times and it is far from clear an accord can be reached soon.

The talks centre on a four-tier external tariff of between 5 and 20 per cent, which some external observers regard as excessively complicated. Bolivia already has a two-tier tariff structure with a maximum of 10 per cent, and is likely to keep it despite the potential for Bolivia to be used as a platform for entry to the free trade zone. Ecuador has been insisting on important exceptions to the common external tariff which others find unacceptable. The Peruvian government wants it set at a flat 15 per cent - the rate it now levies on 98 per cent of imports. Most of Peru's manufacturers and exporters would prefer a staggered regime - but the Fujimori government is committed to a flat rate, which International Monetary Fund and World Bank also favour.

Some observers reckon that the longer the decision on the external tariff is delayed, the less likely it will be that an agreement will be secured. While growing fast, trade among Andean countries is still a relatively small proportion - about 5 per cent - of the region's overall trade. Meanwhile, other groupings - such as the G3 and Mercosur ... - are also growing in significance and exerting centrifugal force on the pact's members.

21. The member countries of Mercosur agreed on a common external tariff at the end of 1994. For the most sensitive items, however, they granted individual exemptions, which are to be phased out by 2001 by Argentina and Brazil, and by 2006 by Paraguay and Uruguay. Table 1 illustrates the extent of exceptions existing as of February 1995.

22. The article in Box 2 illustrates another case where the formation of a customs union by the Andean Group, comprising of Bolivia, Columbia, Ecuador, Peru and Venezuela, has faced difficulties in agreeing to a common external tariff system. The difficulty in this case is not particularly on certain sectors but rather stemming from disagreements over the fundamental posture of trade policies among the member countries, such as whether exceptions should be allowed or not, or how to balance the benefit of the simplicity of the tariff structure against the need to delicately maintain the protection of certain vulnerable industries.

## 2. Other substantive areas of trade polices and regional cooperation

23. In addition to tariff reductions, countries in regional preferential arrangements may consider harmonization or coordination of various rules, systems or procedures of trade, in order to facilitate intra-regional trade. An example of such harmonization and coordination is that of Mercosur, listed in Box 3. These measures of harmonization and coordination also involves cases of interfacing since national policies may need to be adjusted.

24. Among the substantive areas other than tariff reductions, the tariff nomenclature has been already harmonized in most cases, since most countries now adopt the Harmonized System. Secondly, as regards the valuation, the Customs Valuation Agreement of GATT, introduced in the Tokyo Round of Multilateral Trade Negotiations and entered into force in 1981, has now become the world standard. If any of the participating countries in a regional arrangement has not yet employed this system, it seems only reasonable that future regional harmonization be made in line with this system.

25. Thirdly, as regards the rules of origin, there are still various systems around the world and the standard has yet to be emerged. For preferential arrangements or schemes in particular, there seems to be no standardization in sight since the choice depends on the national system of participating countries, the nature of the arrangements/schemes, and various other factors.

26. Although the selection of the system in a preferential arrangement is ultimately up to the participating countries, it may also be worthwhile to consider some standardization among regional arrangements of developing countries. Establishing a standard may be particularly useful in cases where the amalgamation of various arrangements are considered in the future. In Africa, for example, the Abuja Treaty of 1991 envisages the establishment of a continental customs union, the African Economic Community, through eventually putting together various sub-regional economic integration arrangements in Africa. Adherence to a standard may also reduce costs when multiple preferential arrangements cover the same trade flows. For example, many developing countries participating in the Global System of Trade Preferences among Developing Countries (GSTP) - with its 40 per cent local contents rule - also belongs to other

**Box 3**

**Harmonization or coordination of rules, systems or procedures: What MERCOSUR has achieved**

The following areas or measures of harmonization or coordination of rules, systems or procedures of trade have been undertaken by MERCOSUR:

- Definition of a common external tariff
- Elaboration of a common glossary of customs terms and concepts
- Common rules of origin
- Simplification of border procedures through the uniformization of freight declaration and integrated border controls
- Common basic guidelines on the protection of competition- Draft texts for a common policy of safeguards
- Harmonization of 90 technical standards and technical regulations in the car industry
- Joint regulation against subsidized imports from third countries

regional or sub-regional preferential arrangements.

27. There are other possible areas of interfacing between national trade policies and regional cooperation. In some cases, for example, additional charges are levied on the imports for which competing domestic products are subject to internal taxes. If these import charges are collected in a different manner from internal taxes, ensuring the equivalence in value of the charges with taxes may be necessary.

## 3. Technical regulations and requirements

28. There are various technical regulations and requirements imposed on imports. This is another area where certain types of coordination or harmonization would facilitate regional trade cooperation.

29. Box 4 contains the examples of non-tariff import control measures and technical regulations and requirements imposed on imports in ASEAN countries[8]. The ASEAN countries are selected since they have one of the highest ratio of intra-regional trade and therefore have a good reason to coordinate or harmonize regulations. At the same time, they are very diverse in their resource composition, economic structure, and social, cultural and religious aspects, suggesting that the rules and regulations could be substantially different among each other. The selection was made also on the basis of the availability of information. These examples are by no means exhaustive, and they are based on the information collected by the UNCTAD secretariat, up to October 1994 except for Brunei Darussalam (November 1994) and Singapore (March 1995). Therefore, they are not intended to provide an up-to-date information on the regulations in these countries.

[8] Viet Nam was not included due to the lack of information, as the country has joined ASEAN quite recently in July 1995.

**Box 4**
**Examples of regulations and restrictions on imports from ASEAN countries 1994**

***Regulations and restrictions on the public safety grounds***

There are various technical standards imposed mainly on the public safety grounds. For example, in **Malaysia**, the Standards and Industrial Research Institute of Malaysia issues standards on such goods as electrical products, road transport and fire-fighting goods. Importation of cement or high voltage electrical apparatus requires a certificate of conformity with Malaysian, British or an equivalent standard approved by the Government. Safety belt standards are regulated by the Motor Vehicles rules. In **Singapore**, electric household appliances are covered by the Consumer Safety Scheme and each new model needs to be tested by the Singapore Institute of Standards or an authorized laboratory. There are also standard requirements on safety items such as helmets, belts, harnesses and life lines, as well as motor vehicles. For fog lamps for motor vehicles, in particular, *EU standard* is applied. In **Thailand**, the Thai Industrial Standards Institute administers standards on various industrial products such as certain electric appliances and parts, certain construction materials, and certain materials for medical use.

There are products which importation requires (non-automatic) import license also on the basis of public safety. In **Thailand**, for example, the Export and Import Act B.E. 2522 (1979 and updated) defines such products, which importation requires an import license that is issued by the responsible Government authority on *a case-by-case basis*. In **Philippines**, certain chemical substances, tanks, vessels, arms and ammunition require an import licence for national security reasons.

Also on the public safety and national security grounds, certain products were prohibited to be imported. This applies to, for example: cigarette lighters in the shape of a pistol or revolver, firecrackers, horns and sirens for motor vehicles, toy coins or currency notes, motor vehicles with components containing asbestos, etc. in **Singapore**, or opium, firecrackers, military weapons, arms and ammunition, swords, etc. in **Brunei Darussalam**.

(continue)

30. As seen in the examples, there is a wide range of regulations and technical standards and requirements: for safety reasons (e.g. industrial safety standards, weapons control, traffic regulations, automobile safety standards), for sanitary and phytosanitary reasons (e.g. control on pharmaceuticals, pest control for plants, radiation control for meat), for ensuring compatibility with the external world (e.g. industrial standards), labelling requirements, environmental concerns, religious and cultural reasons (e.g. control on alcohol). Whether these regulations are applicable only to imports or not, there are always possibilities of inefficiencies due to the differences in these regulations among regional trading partners.

31. The examples also show that the regulations and requirements greatly vary among the ASEAN countries. Even though there are considerable similarities and overlaps of the regulations between countries - for example, most country regulates food and medicine for safety reasons in somewhat similar fashion, the details almost always differ. While an across-the-board harmonization is unrealistic, there is a merit in considering costs and benefits of harmonization in certain types of regulations. In fact, Mercosur has made more in-roads in this area (e.g. uniformization of freight declaration and border controls, harmonization of 90 technical standards and technical regulations in the car industry), providing a case for harmonization or coordination in developing world.

**Box 4 (cont.)**

***Regulations and restrictions on the health, sanitary and phytosanitary grounds***

There is a wide range of restrictions and regulations on such categories of products as food, animals, plants, pharmaceuticals and cosmetics for the health, sanitary and phytosanitary reasons. While all the countries have regulations on most products included in these categories, they all differ on the product lists, the specifications of standards, the methods of regulation, the Government authorities administering the regulation, etc.

The requirements or the methods of regulation include: packaging standards, labelling standards, inspections or tests (on quality, composition, disease, etc.) at the time of entry, registration of products with a Government authority usually after testing, import licensing, quarantine (usually for animals), and requirements of a health or phytosanitary certificate from the originating or exporting country. The administering authority is usually the Ministry of Health or Agriculture, or a Food and Drug agency.

Examples of certificates required for imports are: a health certificate from the exporting country for importing fish to **Malaysia**; a sanitary or health certificate, an export permit from the exporting country, and/or the certificate of origin for importing an animal or an animal product to **Singapore**. There are also certificate requirements for imports from particular countries or regions: a phytosanitary certificate for importing any plant from American tropics to **Singapore**; or peas, beans, spices, rice, sorghum, etc. from certain Asian and North-African countries to **Malaysia**.

Examples of labelling requirements are: in **Singapore**, pre-packed foods should be labelled concerning the contents, operational warnings and the information of the origin and local importer, packaging regulations are set out for such products as butter, margarine, rice, sugar, wheat flour, milk powder, cooking salt, powder detergents, etc.; in **Thailand**, the label must include the information on the type of food, trade name and registration number, the producer, net contents, main ingredients (with the weight) and certain additives (preservative, colouring, etc.), date of production, instructions for keeping and preparation, etc.; most countries have certain labelling requirements for such products as pharmaceuticals, tobacco and alcohol.

There are also special labelling requirements. For example, **Malaysia** and **Indonesia** has certain labelling requirements concerning the suitability of food for consumption by Muslims. Also, in **Thailand**, all imported food items must be labelled in Thai language, except for items not directly sold to consumers or vendors in which case the label can be in English, in contrast to domestic products for which this requirement apply only to several specific items.

(continue)

32. An obvious merit of harmonizing regulations or requirements is that it generally facilitates the exchange of goods and services among participating countries. The monetary costs and savings of harmonization, both for administrators/regulators and for exporters/importers, should also be evaluated. For example, harmonization of labelling requirements would generally facilitate trade within the region by reducing the costs for exporters/importers to produce and attach different labels. Harmonization could be too costly however, if it also stipulates the labels to be written in multiple languages and if the number of languages is impractically high.

33. Another potential merit is that harmonization or coordination may lead to a more effective sharing of information. Through coordination of phytosanitary regulations, for example, countries may benefit from sharing of the information on specific plant diseases, of which importation must be controlled.

**Box 4 (cont.)**

Examples of the registration requirements of products are: in **Indonesia**, finished milk products must be registered at the Department of Health; in **Malaysia**, pesticides etc. requires a registration certificate from the Government authority.

Import license is required in importing, for example: rice, insecticides and fungicides, antibiotics, used clothing, etc. to **Philippines**; or poultry, meat, dairy products and eggs to **Malaysia**.

Examples of the testing and/or inspection requirements are: in **Malaysia**, importation is subject to inspection and clearance for such products as insects, microbiological cultures, live plants, seeds, vegetables, fruits, coffee, tea, spices, cereals, oil seed, industrial and medical plants, etc.; in **Singapore**, processed foods and pharmaceuticals are subject to inspection by the Ministry of Health, and denatured ethyl alcohol and poppy seeds are subject to a test at the time of entry; in **Philippines**, meat and meat products are subject to prior import clearance by the National Meat Inspection Commission. Certain prohibition exists on the health, sanitary or phytosanitary grounds, for example: imports of tropical fruits from the Philippines and Indonesia are prohibited in **Malaysia**; imports of palm oil plants from certain Latin American countries, or imports of plants with soil (except from West Malaysia), are prohibited in **Singapore**.

***Restrictions for environmental protection and environmental safety***

An import license or a special permit is required in most countries for importing hazardous chemicals, radio-active materials, radiation-emitting devices, etc. For example: in **Thailand**, import licensing is required for such chemical substances as acrylic acid, arsenic and barium carbonate; in **Malaysia**, importation of toxic and hazardous wastes requires a letter of approval from the Director General of Environmental Quality; in **Philippines**, importation of chemical substances requires registration with the Department of the Environment and Natural Resources, while importation of radiation-emitting devices require an permit from the Radiation health Service.

Most countries have provisions for the protection of wild life and endangered species, the prevention of the ozone layer depletion, or other environmental concerns in accordance with such international agreements as the Convention on International Trade in Endangered Species of Wild Fauna and Flora (the Washington Convention), or the Montreal Protocol on Substances that Deplete the Ozone Layer (1987) and its Control Order and Amendment Orders.

Brunei Darussalam requires import license or permit for: rice except, live bovine animals, live swine, skimmed milk, paddy or rough rice, cane and beet sugar, wood and articles of wood, wood charcoal, woven labels and similar products, used motor vehicles, used tractors for use on railway platforms, used cycles and used scooters, etc. Philippines requires license for: cereals except rice, products and residues from the milling industry, used engines for tractors and busses, etc.

(continue)

34. A further potential merit of harmonization/coordination is that it would reduce the influence of special interest groups to introduce regulations at the expense of the general interest.

35. When the regulation essentially aims to protect local industries, relaxation obviously will reduce the protective shields given to the industries. In certain industries, however, reducing barriers among regional partner countries may provide the "testing ground" and prepare the industries to international competition, unless a country in the region is too dominant in the industry in question.

**Box 4 (cont.)**

***Import control measures imposed on the economic or other grounds***

Every country has certain non-tariff measures to control imports on various grounds, and it is sometimes difficult to clearly separate those measures applied on the economic grounds (for example, for the protection of local industry) from others (for example, those from public safety or environmental concerns, etc.). Nevertheless, the attempt is made below to list some import control measures that may have been imposed, at least partially, on the basis of economic considerations.

First set of such non-tariff measures includes several types of quantitative restrictions. There are import quotas, for example: on round cabbages and unroasted coffee beans in **Malaysia**; and on cattle feed in **Philippines**. In **Indonesia**, the Director General of Foreign Trade stipulates the quantities and types of imports: by registered importers on foods, beverages and cloves; and by producer importers on such inputs as oil cake, salt, various iron articles, steel, machinery and appliances, electric motors, generators, and certain tractors.

Importation of certain goods are prohibited, for example: in **Philippines**, locally produced agricultural products such as coffee, onions, potatoes, garlic, residues from the milling of rice or maize; or, petroleum products and coal and its derivatives in the "grades" locally available.

There are also requirements in relation to the usage of local inputs or the linkage to the local production, for example: in **Indonesia**, registered importers can import milk and milk products only if it is linked with local production; or used machinery, machine tools and other capital goods can be imported only by direct user companies and reconditioning companies; in **Thailand**, such products as tea, milk, silk and silk yarn can be imported only when linked with the purchase of local goods; or, the Board of Investment make recommendation concerning the percentage of local inputs to benefit from special privileges in certain promoted industries, such as the production of gas pressure thermostats, polystyrene film, coated aluminium sheets for printing and pasteurized milk.

Finally, there are variety of quantitative restrictions and licensing requirements, which may not be imposed necessarily on economic grounds. For example, **Malaysia** requires license in importing such products as: sugar, natural barium sulphate, clinkers, magnetic tapes for video and sound recording, diamonds, colour copying machines, high-speed duplicator parts, video machines, liquid milk, cereal flours, activated clay and bleaching earth, kam sarong, batik, iron and steel products, rice and paddy, wood in the rough, Virginia tobacco, round cabbage, coffee not roasted. **Thailand** imposes various quantitative restrictions on such goods as: potatoes, soybeans, coconut, copra, dried logans, pepper, rice, soybean or coconut oil, soybean or ground nuts oil cake, palm oil and kernel, sugar, garlic, coffee, raw jute and other textile bast, marble and other calcareous monumental or building stone, worked monumental or building stone, liquidized petroleum gas, fertilizers, unfinished garments and certain parts of garments, gunny bags of jute or kenaf, gasoline engine displacements of certain size, internal combustion piston engines and cylinder cases, motor cycles.

36. Logically, there are three ways to cope with the differences in the standards and requirements. First is to maintain the difference and keep the control. This implies, for example, some products from partner countries may not be imported if they do not comply with domestic standards. These cases, however, seem to be rather exceptional.

37. Second is to accept the differences and allow the exchange of goods and services or cross-border activities to be made under the different standards. This applies to cases where the costs of harmonization or standardization are high but the differences can be accommodated reasonably. For example, differences of industrial standards can be reasonably tolerated through development of compatible equipments (e.g. multi-system television, adapters for electric outlets) or market selection (e.g. different sizes of the paper). This also may mean accepting different

standards or certificates of inspection from partner countries. At least in the short term, the majority of cases seems to fall into this category.

38. In these cases where different standards are to be accepted, what becomes important is the dissemination of consumer information so that consumers are well aware of the differences and that the market-selection process functions.

39. Third is to harmonize the standards or requirements. This applies to such cases as:

- when the benefits of harmonization clearly outweigh its costs (e.g. the regulations on the use of radio frequencies, certain industrial standards such as certain types of spare parts or octane contents of gasoline);
- when harmonization can be introduced gradually through, for example, step-by-step replacement with the harmonized system/equipments (e.g. automatic postal machines);
- when costs are reasonably low (standardizing formats of certificates or forms, such as customs documents, vaccination records, etc.);
- when there are obvious externalities such as pollution that are socially or economically not tolerable; or
- when non-harmonization creates unreasonable differences in the cost of production for competing industries (e.g. substantially different environment standards).

40. In the majority of cases, there are definite benefits to the harmonization, but its costs may be considered too high, at least, in the short term. In many cases, therefore, harmonization may be set as a long-term objective while, in the short run, countries may opt for the mutual acceptance of different standards and requirements. For this, what may be important is to have the mechanisms of consultation and coordination in place, so that corresponding Government agencies will be able to discuss in technical terms what are the merits and demerits of harmonization or coordination and, if the merits outweighs the demerits, how to implement it.

## B. Investment and business activities

41. In the area of investment policies, two broad types of interfacing between regional cooperation and national policies may be considered: (a) interfacing and cooperation in attracting foreign investment as a region as a whole, and (b) interfacing in the facilitation of cross-border business activities among the regional partners.[9]

**Table 2**
**Net resource inflows to developing countries**
*(billions of dollars)*

| | 1986-90 *(annual average)* | 1992 |
|---|---|---|
| Africa | | |
| Direct investment | 2.6 | 2.9 |
| Portfolio investment | -0.5 | 0.1 |
| Private loans | 1.7 | -2.8 |
| Official loans and grants | 16.8 | 23.0 |
| **Total** | 20.5 | 23.2 |
| Latin America and Caribbean | | |
| Direct investment | 6.4 | 14.5 |
| Portfolio investment | -0.8 | 5.5 |
| Private loans | 0.2 | 7.4 |
| Official loans and grants | 7.4 | 3.4 |
| **Total** | 13.2 | 30.8 |
| West Asia | | |
| Direct investment | 0.3 | 0.3 |
| Portfolio investment | - | - |
| Private loans | 0.9 | - |
| Official loans and grants | 4.1 | 2.3 |
| **Total** | 5.4 | 5.5 |
| South, South-East and East Asia | | |
| Direct investment | 7.5 | 21.2 |
| Portfolio investment | 2.2 | 8.1 |
| Private loans | 2.8 | 15.0 |
| Official loans and grants | 12.0 | 17.7 |
| **Total** | 27.5 | 61.8 |

Source: UNCTAD, *World Investment Report 1994* (UNCTAD/DTCI/10)

[9] For full policy discussion on foreign direct investment, see UNCTAD/DTCI/26, *World Investment Report 1995: Transnational Corporations and Competitiveness*, particularly "Part Three: Policy Implications".

## 1. Attracting foreign investments as a region

42. International financial flows to developing countries have expanded sharply during the last decade, with the growth in private flows accounting for a large portion of this increase (see Table 2). There are, however, diverging regional patterns within this trend: East Asia has benefitted most from this increase; Latin America and Caribbean has been the second most important beneficiary of resource inflows; in contrast, private financial flows to Africa and West Asia remain very low; and the financial inflows of South Asia are still largely dominated by official sources.

43. This regional design of financial flows reflects the pattern of economic growth in general, although the investment flows have been proven to be more volatile than the levels of production or trade (see Table 3). It may be also resulted by international investors' tendency to view a region or sub-region as a bloc in evaluating their investment opportunities and making their decisions. In East and South-East Asia, for example, the steady liberalization of both trade and investment regimes, together with other factors such as a stable macroeconomic environment and a highly productive work force, has invited consistent growth in every facet of economic activity, projecting the region as the most attractive investment destination in the developing

**Table 3**
**Growth of investment, production and trade**
*(Growth rate in percentage)*

| | 1986-90 *(annual average)* | 1991 | 1992 | 1993 |
|---|---|---|---|---|
| Africa | 6 | | | |
| Foreign direct investment | 7.4 | 18.3 | 12.5 | - |
| Gross domestic product | 2.5 | 1.6 | 0.4 | 1.6 |
| Export | 3.7 | 1.9 | 2.1 | 0.1 |
| Latin America and Caribbean | | | | |
| Foreign direct investment | 15.7 | 73.6 | -2.6 | - |
| Gross domestic product | 2.0 | 3.3 | 2.5 | 3.4 |
| Export | 5.0 | 4.7 | 8.5 | 4.1 |
| West Asia | | | | |
| Foreign direct investment | 21.4 | -1.9 | -50.0 | - |
| Gross domestic product | 3.4 | 2.4 | 7.8 | 3.4 |
| Export | 7.6 | 3.1 | 8.4 | 6.9 |
| South, South-East and East Asia | | | | |
| Foreign direct investment | 35.9 | 4.9 | 36.5 | - |
| Gross domestic product | 7.1 | 6.1 | 7.8 | 8.7 |
| Export | 13.1 | 11.9 | 11.2 | 12.7 |

Source: UNCTAD, *World Investment Report 1994* (UNCTAD/DTCI/10)

world. This growth has been also characterized by the increasing production linkages among regional partners.

44. These observations show that, firstly, concerted efforts among countries of a region to entice foreign investments can be effective in creating an attractive sphere for international investors. Secondly, the liberalization of trade regimes, both within and outside the region, is also an important factor in attracting foreign investment. Since direct-investment decisions are based on long-term considerations, it is also important for the Governments to show their commitments to the liberalization by implementing the plans and avoid the impression of discontinuity by refraining from frequent policy changes.

## 2. Creating liberal business and investment environment among regional partners

45. The measures to attract direct investments may be roughly categorized into three types. The first category covers the measures that reduce regulatory and other barriers to foreign investments. Such barriers include the restrictions on foreign firms' entry into certain sectors or the requirements of authorization, the limitations on the foreign ownership of a company, the control of foreign exchange, and the restrictions on the remittance of profits and the repatriation of capital.

46. Most developing countries have some degree of restrictions on the foreign investment or business activities in such areas as ownership, registration or control of corporations, and repatriation of profits and original investments. These restrictions are one of the impediments to cross-border trade, investment and other business activities. Hence, when countries are seeking regional trade liberalization or economic integration, it may be also considered to provide either national or preferential treatment to partner countries. Moreover, if a common market is envisaged, national treatment of investors and enterprises from partner countries is necessary.

47. The second group of measures motivating direct investments creates an environment favourable to investment, whether it is of domestic or foreign origin. These measures aim at increased transparency and fairness of laws, regulations and administrative practices. They also imply lower taxes, minimal restrictiveness of the regulations and stable macroeconomic environment.

48. Further, the harmonization of corporate laws and regulations which govern formation, operation and liquidation of corporations is also an essential element in facilitating cross-border business activities, whether regional or global.

49. The provision of national treatment to intra-regional investors and the establishment of a common regional investment framework may be envisaged either: (a) as a rather exclusive regional preference or (b) within the broader framework of general liberalization to foreign investment. In the 1960s and the 1970s, many developing countries opted for the first solution. This approach is best illustrated by the common policies of the Andean Group towards foreign direct investment. Among the series of investment regulation instruments the Group has adopted, the one which epitomised this policy direction is the Andean Investment Code (Decision 24, 30 June 1971), a comprehensive and stringent regime to regulate the activities of transnational corporations, aiming at adapting them to the development need of the sub-region.

50. Later, this comprehensive regime, set by Decision 24 of 1971, has been *de facto* superseded by more flexible and liberal decisions by the Group itself and national regimes adopted by member countries. In 1987, Decision 220 gave member countries increased freedom to regulate foreign direct investment. Regarding the common rules, it lifted the prohibition for transnational corporations to acquire shares in locally-owned companies. In 1991, Decision 291 gave full discretion to member countries to regulate foreign direct investment. As a matter of principle, it replaced the authorization requirement by simple registration. Decision 311 of the same year complemented these measures of liberalization with intellectual property protection

granted to transnational enterprises.

51. Thus, there has been a shift of the approach in early 1980s to reconsider regional investment cooperation within the framework of liberal national policies. In accordance to this policy direction, the measures falling into the first and the second categories of attracting foreign investment mentioned above, would aim to reduce the existing market distortions (particularly the first type) or the obstacles to the effective functioning of the market (particularly the second). The interfacing of regional partners in these areas may take such forms as the exchange of experience and information, the creation of an open regional market to attract outside investment, the creation of maximum regional transparency of legislation, administration and regulation, etc.

52. Some of the existing efforts of developing countries to create effectively functioning regional markets of foreign direct investment are:

* the Basic Agreement on ASEAN Industrial Joint Ventures (1983) - preferential tariffs apply to goods produced by joint ventures involving partners from ASEAN members

* the Agreement for the Promotion and Protection of Investments of the ASEAN (1987) - based on the pattern of bilateral investment treaties

* the Decision 292 of the Commission of the Cartagena Agreement - a statute for "Andean Multinational Enterprises (AME)" (defined by shareholdings by two or more Andean countries representing over 60% of the capital of the enterprise).

53. The third category of measures involves incentives which are deliberate policy tools to attract investments and often intend to direct investment towards a particular location or sector. They may be tax incentives (tax holidays, lower rates, investment allowances, etc.), other financial incentives (direct grants, lower tariff rates for the importation of inputs, preferential access to credits, lower rates on loans, loan guarantees, etc.) and non-financial measures (provision of infrastructure and supporting services).

54. In contrast to the measures listed in the first two groups, those in the third category, the incentives, may create distortions with a discriminatory treatment to certain industries or foreign firms. Although, in some cases, incentives may be proved to have been an impetus to long-term industrial development, it is ultimately the fundamental economic strength (human resources, presence of competitive markets, etc.) that creates long-term industrial development, and selecting "correct" incentives seems rather difficult.

55. Since incentives can create distortions that are not justified by market rationale in the long run, excessive competition through these measures may lead to a "prisoner's dilemma" where the equilibrium rests at the negative point for all parties involved in such a competition. Among the regional partners, therefore, it is important to create such an interfacing and coordination of national policies that avoid excessive competition through incentives.[10]

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[10] See *ibid.* Chapter VI, B. "The role of incentives".

56. Incentives are often provided in the context of establishing a special economic zone, where various types of incentives are packaged in a particular location. There are many successful examples of such zones. In these cases also, however, excessive competition should be carefully avoided through regional coordination. This implies for example too many such zones should not be established and undercutting competition, simply aiming at beating the others, should be avoided. In groupings composed of very small countries, another meaningful way of cooperation may be the creation of joint economic zones which provide the scale economies necessary to attract foreign direct investment.

### 3. The applicability of multilateral rules in the area of investment

57. There have been some attempts to provide multilateral rules in the area of investment. In the agreements reached in the Uruguay Round of Multilateral Trade Negotiations, there is the Agreement on Trade-related Investment Measures (TRIMS), which has clarified the trade-related obligations to eliminate quantitative restrictions and other non-tariff measures. A more profound agreement was reached in the General Agreement on Trade in Services (GATS), which has defined the *modes of supply* of services. Among the four modes, *commercial presence* concerns foreign direct investment directly as it relates to the right of establishment and the treatment of the persons already established. While the other agreements do not deal with the investment *per se*, such issues as the liberalization of trade achieved, the provision of a more secure and reliable multilateral trading system and the protection of intellectual property rights should also be of great concern to the investors.

58. The OECD has also been active in promoting liberal investment regimes among its member countries and establishing a multilateral framework for mutual facilitation of investments, including the Code of Liberalization of Capital Movements and Current Invisible Operations (1961) and the OECD Declaration of International Investment and Multinational Enterprises (1976). Member countries expressed their support to this endeavour at their annual meeting in June 1994.

59. Other important multilateral agreements setting the rules of investment policies include the Convention establishing the Multilateral Investment Guarantee Agency (1985), the Washington Convention on the Settlement of Investment Disputes between States and Nationals of Other States (1965), the New York Convention on Recognition and Enforcement of Foreign Arbitral Awards (1968), and the Paris Convention for the Protection of Industrial Property (1883, last amended in 1979).

60. From the viewpoint of interfacing between national policies and regional commitments of developing countries in the area of investments, these multilateral tools may prove to be useful guidelines for possible future directions of joint regional investment policies, or joint regional strategies concerning prospective accession of member countries to some of these international treaties.

## C. Monetary and fiscal policies

### 1. Monetary policy coordination

61. In addition to trade and investment, monetary and fiscal policy coordination is a third sphere of interfacing. Monetary policy coordination in the context of regional cooperation implies policies of convergence of basic macroeconomic indicators, coordination of foreign exchange policies, coordination of interest rate policies, and concerted actions among central monetary authorities.

62. The gains for investors and traders from a zone of stable exchange rates are indisputable. Particularly for countries which have made substantial progress in trade and investment cooperation such as the European Union, cooperation in this area is becoming increasingly important. A reliable regional monetary and fiscal environment would not only imply major savings, but also an indispensable degree of stability required for long-term trade and investment decisions.

63. Another potential benefit of monetary coordination and harmonization is its capability to provide favourable conditions exclusive to regional partner countries, and thus promote intra-regional economic activities, in particular. A further advantage is the utilization of scale economies, particularly in the form of savings of intra-regional transaction costs.

64. For the groupings of developing countries, trade and investment cooperation may enjoy more priority than interfacing in monetary and fiscal policies. However, the basic relationship among the three areas is the same as in the developed countries: monetary and fiscal coordination and harmonization enhance trade integration and investment cooperation. Whether developed or developing, countries with diverging monetary and fiscal performance (inflation rate, budget deficit, etc.) will find it difficult to manage day-to-day commercial and financial operations. Furthermore, if a group of countries envisages an eventual monetary union, monetary and fiscal cooperation will provide an indispensable learning-by-doing process and represents a key step forward towards monetary union.

65. Most developing regions opt for less ambitious forms of integration than a monetary union. In such a case, their activities would mainly focus on: (a) consultations on monetary and macroeconomic issues; (b) coordination of rules, legislation, operational procedures on banking and other financial policies; as well as (c) policy convergence expressed by certain key variables.

66. The most serious constraint to such harmonization and coordination is the overwhelming impact of global financial transfers, which affect the macroeconomic performance of developing countries as much as domestic monetary and fiscal policies themselves. To counteract the erosion of the autonomy of national policies, as well as the diminishing effectiveness of monetary instruments, Governments see may feel that cooperation also should aim, under a carefully designed and defined regional mechanism, to reduce the uncertainties resulting from global flows.

67. Interfacing and conflict may occur in the most traditional areas of monetary policies such as foreign-exchange or interest-rate policies. These are areas where member countries of a grouping are inclined to formulate their policies according to the divergent national macroeconomic priorities they have. Even in a relatively homogeneous grouping such as the MERCOSUR, member countries have different foreign-exchange and interest-rate policies. For example, some countries may adopt a currency-board approach to the exchange rate of the national currency, while others may prefer a floating-exchange-rate regime. As regards interest rates, countries with highly-internationalized production base or with traditionally high inflationary tendency may opt for tight monetary policy, while countries with broad domestic manufacturing base may prefer a more expansive policy to meet the financing needs of these industries.

68. If the basic conflicts among monetary policies are not cleared, and the common goals of monetary integration are not defined, it is very difficult to design concerted actions among monetary and fiscal authorities. In these areas, effective cooperation may require mutually acceptable compromises, reached through regular consultations of the competent national authorities. For example, a grouping may find it reasonable to live with different systems of foreign exchange (currency board in some countries, free float in others), on condition that the levels of convertibility are similar. The same grouping may find it more difficult, for example, to have a restrictive monetary policy in one country and an expansionary one in another. In such a case, central monetary authorities may need to consult and create a *modus vivendi* between the two countries that creates the minimum condition of monetary coordination.

69. With respect to the convergence of macroeconomic indicators, the possibility of disharmony is always present when countries attempt to agree on common targets or criteria. Even in the European Union, it has proven to be difficult to adhere to the agreed criteria; as of December 1995, only two member countries among the fifteen qualified for the prospective monetary union according to the criteria of monetary and fiscal convergence[11]. The obvious source of the difficulty is the differences in the macroeconomic condition and history of the countries. Hence, even among apparently similar countries, requiring uniform benchmarks may be problematic.

70. Then, one might ask whether or not convergence indicators have any utility for integration groupings of developing countries. The answer is a qualified yes. The utilization of the strict criteria of the European Union may not be feasible for developing-country groupings and hence may require modification. Developing-county groupings may also need more flexibility in the legal imperativeness of the criteria for a deeper monetary cooperation or, eventually, a monetary union. All in all, however, these criteria are useful and fair indicators of the progress in monetary cooperation.

71. In the area of rules, legislation and operational procedures on banking and other financial policies, a difficulty may arise from the divergence in national practices of member countries of the same cooperation grouping. For example, members of prospective cooperation groupings may have followed the practices of different developed countries, as they had different historical links with the North. Or, there might be ambiguities stemming from the lack of an exact

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[11] See The Economist, December 9th 1995, p. 20.

common financial and banking terminology in the different official languages of the cooperation grouping. In many cases, the divergences are too important to permit regional standardization, and some of the participants may find themselves obliged to switch their traditional practices to something less usual.

72. In order to minimize the potential conflict in this area, integration grouping may opt for adopting a common strategy that would: (a) retain most of the national rules, laws and operational procedures, as long as they can be mutually accepted without doing harm to regional cooperation; (b) if the benefit of harmonization clearly outweighs its cost, undertake a harmonization that would not disrupt the functioning of the national systems. An example of the latter may be the adoption a common, multi-language nomenclature and glossary of concepts, analogous to steps taken by MERCOSUR for customs terms and concepts.

73. Another potential disparity may exist among the national monetary and financial systems of member countries of cooperation groupings in the levels of sophistication. The more advanced countries may consider it risky to cooperate with partner countries with less clear and well-defined financial practices. In turn, the less advanced countries may find it difficult to adopt more sophisticated practices without an adequate learning period for their financial sector. Hence, regional cooperation in laws and regulation ought not be limited to the adoption of harmonization agreements but should also include technical assistance and training activities imparted by practitioners of more advanced countries to experts of less advanced countries.

## 2. Fiscal policy coordination

74. Fiscal policy coordination in the context of regional cooperation can imply that both the financing methods and the amounts of fiscal deficits are regulated by commonly agreed rules. In many cases, countries must accept the fact that fiscal deficits cannot be financed by the central bank. The coordination of monetary and fiscal policies are thus linked to each other.

75. How the fiscal deficit and government debt is financed - whether by the monetary authority or through markets - indeed has a profound impact on the prospects of monetary cooperation. Without a coordination on this matter, and also on the limits to the budget deficit, it is difficult to imagine a meaningful monetary-cooperation zone. If budget deficits are financed without limits, the lack of discipline in one country may spill into the partner countries, as their markets will be tapped once the domestic resources of the original country are no longer sufficient. Furthermore, if a monetary union and a common currency are among the final goals of integration, unlimited fiscal deficits may undermine the stability of some of the national currencies and hence make the currency unification impossible.

76. Developing-country groupings that share a common central bank and a common currency, such as the *Communauté financière africaine* (CFA), have had experience with potential conflicts in fiscal policies. The clashes of interest among member countries ensue from the endeavour

of each of them to maximize its own deficit financing and, at the same time, to limit the deficit financing of the grouping as a whole. This conflict could be resolved by a distribution of budget deficit allowances among member countries, ideally based on pre-set criteria such as the size of the economy and the GDP per capita). In such case, the common central bank would have the power not to finance the deficit of the countries that have exceeded their limits.

77. In a grouping composed of countries with separate national banks, further disharmony may occur because of the diverging interests of these banks. In the European Union, this difficulty is avoided by the provision that the central monetary authorities cannot finance fiscal deficits in principle. In many developing countries, however, where a local financial market is not adequately developed as an alternative financing source, this restriction may not be feasible, and central monetary authorities may need to negotiate the rules and limits of deficit financing.

78. If the fiscal deficits need to be financed at the local financial markets, the extensive use of government bonds and treasury bills might crowd out private security issuers, who might be obliged to enter the capital markets of regional partners. It may also happen, in case of an advanced level of monetary integration, that government bonds and treasury bills of one country are sold on the capital market of another. In both cases, one country benefits from the resources available on the capital market of another. The latter country may find it difficult to accept this situation, or tempted to "retaliate" with a similarly extensive issue of government bonds. Therefore, it is desirable that regional partner countries discuss a general framework, guidelines and obligations of prior notification for major government bond and treasury bills issues.

79. Another important aspect of fiscal cooperation is tax policy coordination, particularly in terms of taxes levied on entry of currencies and investment.[12] By putting a premium on the long-term forms and penalties on the most volatile forms, a carefully designed common policy may guide financial flows towards productive means, avoid extreme fluctuations and create a common pool of resources for cases of financial emergency. Nevertheless, the elaboration of such a scheme depends on a high regional sense of solidarity. Otherwise, countries better placed to attract short-term flows may be tempted to avoid cooperation, thus maximizing the immediate inflow of capital into their national economy. A common pool and its utilization are also a management issue, for which there are very few positive examples presently.

### 3. Progress in monetary and fiscal cooperation - some examples

80. Progress in monetary and fiscal cooperation may be measured by some key indicators. At the very least, there should be some convergence in critical macro indicators, such as: inflation rates; exchange rates; the range of interest rates; and the percentage of the deficit and debt to GDP run by the fiscal authorities.

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[12] See Halperin, Marcelo. 1994. "Política monetaria y procesos de integración en América Latina," *Integración Latinoamericana* (INTAL), vol. 19, no. 206 (December), pp. 3-9.

81. The first example of monetary coordination presented here concerns MERCOSUR, in which member States were to reach basic convergence in exchange regimes by mid-1994. This was mostly achieved in July 1994 when Brazil, by way of introducing the *real*, a new currency, joined the other three member countries' exchange-rate systems. This was the most important development in the monetary sphere of the grouping since the convertibility of the Argentinean *peso* had been achieved in March 1991.[13] This may prompt a high degree of intra-regional convertibility and low inflation rates.

82. In MERCOSUR, recent signs of stability in the macroeconomic environment and the convergence of the trends in monetary and fiscal indicators may form a good basis for a sound monetary environment and, hence, for serious coordination. The convergence of indicators is particularly pronounced in the inflation rates where, in 1994, Paraguay, Uruguay and Brazil reached similar levels. As for Argentina, its inflation has been low, even in international standards (4.3 per cent in 1994). Similar convergence seems to have taken place in terms of budget deficit (not likely to exceed 3 per cent of GDP for all the member countries) and government debt (less than 60 per cent of GDP). The limited amount of data since stabilization and convergence started, however, does not permit a stronger conclusion.

83. As for the previous trends of critical macro-indicators, the high- and hyper-inflationary (Brazil) environment and the concomitant robust devaluations had hampered any possibility of coordination. For example, the Annex tables reveal a relatively strong historical correlation of long- and short-term nominal exchange rates among three member countries: Argentina, Paraguay and Uruguay. This correlation is a reflection of their common past experience of strong devaluation of national currencies. Hence, such similarity did not mean macroeconomic convergence conducive to exchange rate stability.

84. Regarding real exchange rates (nominal rates corrected by the consumer price index), similar to other indicators, the limited amount of data since stabilization started, does not permit a definitive conclusion. As for the past trends, a correlation holds between Argentina and Uruguay, both of which are countries with overvalued national currencies. Paraguay and Brazil do not correlate with the other two countries for opposite reasons: in the former, the real exchange rate has been relatively stable while, in the latter, it has revalued substantially (see Table 3 in Annex).

85. Another example of potential monetary and fiscal coordination may be found in the case of the Arab Maghreb Union (AMU), which has an ambitious cooperation programme in this area (see Box 5). This programme includes a payments agreement among central banks and the regional convertibility of national currencies. Although the region has some convergence of monetary indicators, there are still much prevailing discrepancies of the indicators between the major economies of the region (see Annex tables). For example, the nominal exchange rates were diverging significantly in the long term between Morocco, on the one hand, and Algeria, Mauritania and Tunisia, on the other. More recently, they have been more similar between Morocco and Tunisia but have still greatly differed from that of Algeria or Mauritania. In terms of real exchange rates, except for recent convergence between Morocco and Tunisia (slight

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[13] These developments are analyzed in detail in: "Currency convertibility and monetary cooperation within integration groupings of developing countries", UNCTAD/ECDC/250, May 1995.

**Box 5**

**The Arab Maghreb Union's (AMU) activities in monetary and financial cooperation**

In the framework of monetary policy harmonization, the central banks of member countries adopted, in December 1992, a unified bilateral payments agreement. The objective of this agreement is the checking and auditing of debts of whatever nature. For this purpose, the central banks open non-resident accounts in transferable local currencies with each other, and clear transactions every 15 days.

In the future, this agreement may be multilateralized. The AMU also aims at the establishment of a multilateral clearing house, the adoption of a Maghrebian unit of account, and even a common currency. All these objectives are part of the general Maghrebian integration strategy, aiming at, progressively, a free trade zone, customs union, common market and economic union.

As for trade finance, in 1991, the member States of the AMU signed an agreement on a regional investment and external trade bank. This bank, once operational, will finance both intra- and extra-Maghrebian trade. In the area of insurance and reinsurance including trade-related and other, AMU has created a joint permanent commission between the professionals of the field and public administration staff.

revaluation), differences are quite significant. Further problems lie in the lack of soundness in the monetary environment and deepness of macroeconomic environment.

86. A parallel avenue of monetary cooperation is the transformation of certain payments arrangements, such as the Asian Clearing Union (ACU) and the West African Clearing House (WACH), into monetary cooperation zones. In this case, their activities may cover, beside the traditional clearing and settlement for trade and finance: exchange rate harmonization; cooperation in the design and implementation of fiscal and monetary policies; promotion of intra-grouping capital flows by the harmonization of the regulation of money and capital markets; and, eventually, concertation in the conception and realization of adjustment programmes to ensure their compatibility with the objectives of subregional integration.

87. The experiences mentioned above suggest the need of an institutional structure for cooperation in monetary and fiscal policies. Through this structure, central monetary authorities and ministries of finance might participate in regular consultations, and review actions of common interest, such as: harmonizing exchange-rate interventions and regulations; coordinating debt-financing measures; taking measures to strengthen the ability of member countries to cope with the implications of regional monetary cooperation and harmonization; agreeing on and sequencing harmonization and implementation; and pursuing common macroeconomic objectives.

## III. INSTITUTIONAL IMPLICATIONS

88. The efficiency of tackling the major issues of interfacing between national policies and regional commitments developing countries face in the areas of trade, investment and money, depends enormously on the availability of a suitable institutional structure of cooperation and coordination. In principle, such a structure, based on unhindered and unbiased communications initiated by either the decision-makers or the beneficiaries of the policies, should result in an adequate preparation for and follow-up of the joint decisions.

**Box 6**
**The Institutional Structure of Decision-Making in the MERCOSUR**

*I. The Council of the Common Market (CMC)*

is a decision-making, supreme intergovernmental body. Its members are the Ministers of Foreign Affairs and the Ministers of Economy of member States. It meets at least twice a year.

*II. The Common Market Group (GMC)*

is a decision-making, executive intergovernmental body. It has four members and four alternates per country, including representatives of the Ministries of Foreign Affairs, the Ministries of Economy and the Central Banks. It has regular and extraordinary meetings.

*III. The MERCOSUR Trade Commission (CCM)*

is a decision-making intergovernmental subsidiary body of the Common Market Group (GMC), coordinated by the Ministries of Foreign Affairs. It has four members and four alternates per country. It meets at least once a month.

*IV. The Joint Parliamentary Commission (CPC)*

conveys, through the Common Market Group (GMC), recommendations to the Council of the Common Market (CMC). It consists of an equal number of deputies from each national Parliament.

*V. The Economic-Social Consultative Forum (FCES)*

conveys recommendations to the Common Market Group (GMC). It consists of an equal number of representatives of the economic and social sectors of each country.

*VI. The MERCOSUR Administrative Secretariat (SAM)*

is the operational body of MERCOSUR. Its Director is elected by the Common Market Group (GMC) and named by the Council of the Common Market (CMC).

Decisions are made by consensus, in the presence of all member States. They are published in the Official Bulletin of MERCOSUR. Once a standard is approved, member States take the necessary steps to incorporate them into their national legislation. The MERCOSUR Administrative Secretariat (SAM) is informed about these steps. It notifies the member States if the standard has been adopted by all of them. Thirty days after this communication, the standards enter into force.

Source: Protocolo de Ouro Preto. 1994. "Protocolo Adicional al Tratado de Asunción sobre la Estructura Institucional del MERCOSUR," *Integración Latinoamericana* (INTAL), vol. 19, no. 206 (December), pp. 66-71.

89. Some of the groupings of developing countries have made great efforts to involve wide social and economic sectors in the preparation of decisions, and to create a thorough follow-up mechanism, thus improving the prospects of implementation of joint decisions. The most recent example of such efforts is the institutional structure, adopted by MERCOSUR in 1994 (see Box 6). It combines decision-making and executive organs, composed of: the Ministers of Foreign Affairs and of Economy and other key government and central monetary authority representatives; a common parliamentary commission; a consultative forum, involving representatives of the private sectors of member countries; and an administrative secretariat. Because these organs communicate regularly with each other and involve, in each phase of decision-making, those economic and political actors who know most the issues at hand and who are most affected by the decision, the MERCOSUR decision-making process is expected to become increasingly dynamic and flexible.

90. In most integration groupings of developing countries, however, the institutional structure is not always at a satisfactory level of sophistication. In many cases, there is not a single national authority in member countries that could guarantee and coordinate the participation of the relevant public and private actors in joint decision-making and, then, make sure that the decisions of the grouping are actually implemented by the relevant national agencies and actors. It is therefore important to find ways to improve this aspect in developing-country cooperation schemes.

91. The strengthening of the institutional mechanism of cooperation seems more likely to be successful if the cooperation scheme adhered to a practical, flexible bottom-up approach to joint decisions, including the participation of the private sector. The focus of the institutional structure should remain at the national level rather than regional, where most of the implementation problems prevail. It is also important to create the basic pre-conditions of integration first, and build the additional activities of integration groupings on this basis. Hence, the priority of the integration groupings of developing countries lies in regional trade policies, together with investment cooperation and monetary and financial harmonization.

92. Each cooperation scheme or integration grouping would need to elaborate, piece by piece, its own policies in line with the pragmatic approach to the institutional structures, described above. One very illustrative example of the pragmatic and flexible approach can be found in the Cross-Border Initiative of the European Union, designed to promote regional integration in Eastern and Southern Africa, as described in Box 7. The key feature of the approach in Cross-Border Initiative is that, instead of establishing all-encompassing rules from the above, it establishes its policies from below, and participation in its programmes is voluntary.

**Box 7**

**The Cross-border initiative to facilitate regional trade, investment and payments in Eastern and Southern Africa and the Indian Ocean**

The Initiative intends to promote integration, with the help of the European Union, in Eastern and Southern Africa and the Indian Ocean. The members of the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC) and/or the Indian Ocean Commission (IOC) are eligible for participation*. They have been invited to set up Technical Working Groups, with the participation of both the public and private sector. Countries participate on a voluntary basis; they are expected to be prepared to engage in policy reforms on a reciprocal basis.

The Initiative has four co-sponsors: the African Development Bank, the European Commission, IMF and the World Bank. It has collaborated with the relevant regional integration organizations: COMESA, SADC and IOC, and relies on a dialogue with Pan-African institutions such as the Organization for African Unity and the Economic Commission for Africa.

The work carried out under the Initiative has had five phases:

1) The Technical Working Groups prepared an inventory of constraints to regional trade, investment and payments. The terms of reference had been discussed and agreed at a workshop with representatives of all the Technical Working Groups.
2) The Technical Working Groups agreed on a common Programme of Action for the core policy measures to remove the main constraints on cross-border economic activities (December 1992).
3) In August 1993, the Programme of Action was synthesized into a Concept Paper that was endorsed by the Ministers of the participating countries as well as by senior officials of the regional organization and the co-sponsors.
4) The policy package of the Concept Paper is translated into a specific country-level policy programme to be supported y the donors. This programme is described in a "Letter of Cross-Border Initiative Policy" that is agreed among the country and the co-sponsors. At the same time complementary regional projects are worked out (eg in the area of improving the financial sector).
5) A second ministerial meeting took place in March 1995 in Mauritius. The Mauritius meeting served to agree on a timetable for removing intra-regional tariffs as well as harmonizing external tariffs.

Under the Initiative, the co-sponsors cover the net transition costs, in the form of balance-of-payments support, for the Governments carrying out the policy package, provide technical assistance related to the policy reforms in the form of capacity-building on the subject of implementing regional integration policies, and assist the private sector in restructuring. A private sector support facility has been agreed for the IOC countries and, as of 1995, pilot operations are under preparation for Zambia and Malawi. In addition, preparatory work is being carried out for complementary regional projects in the financial sector.

The main focuses of the policy programme are: trade liberalization; trade facilitation; facilitation of investment flows; facilitation of movement of persons; foreign exchange liberalization; and strengthening financial intermediation. The European Union also supports the elimination of the physical constraints to integration in the area of transport and communications.

* Current participants of the Initiative are Burundi, Comoros, Kenya, Madagascar, Malawi, Mauritius, Namibia, Seychelles, Swaziland, United Republic of Tanzania, Uganda, Zambia, Zimbabwe, and South Africa, which has observer status.

Source: European Community

## IV. CONCLUSIONS

93. The interfacing between national policies and regional cooperation is a multi-faceted problem which is not amenable to a simplistic prescription and which needs to be addressed on a case-by-case basis.

94. In the area of trade policies, the interfacing could lead to policy conflicts when countries belonging to a regional trade-liberalization scheme have different policy objectives *vis-à-vis* third countries in certain sectors. This usually implies one country wanting to open its market for certain products to third parties, while another tries to protect either its own or regional market. According to the Cooper's classification of possible reactions to such a situation, the first set of reactions is to abandon the existing level of cooperation and, if necessary, raise the intra-regional tariffs. The second set of reactions is to seek other means to mitigate the problem, for example, through utilization of the rules-of-origin or non-tariff barriers. The third set of reactions are to preserve the cooperation and negotiate a mutually acceptable solution, with both countries making some concessions.

95. As trade liberalization is progressing on a global scale, differences in technical standards, requirements, regulations, etc. could soon surface as a major remaining obstacle to trade. For each case, if there is an intense interfacing of national policies among countries in a cooperation scheme, they must decide, by weighing the costs and benefits for each item, whether to mutually accept different standards or regulations, or to consider deeper harmonization or coordination. In doing so, the countries may need to establish a clearer channel of consultations between technical bodies of their respective Governments to identify and analyze potential areas of harmonization and coordination.

96. As regards foreign direct investment, the interfacing might lead to a policy conflict when a cooperation scheme attempts to put in place a strong and comprehensive regulatory framework on foreign direct investment, while there are different developmental needs among the countries. Another area of interfacing that may result in a negative equilibrium for all the countries involved is the excessive competition to attract investment through incentives.

97. As the globalization of the economies proceeds with private enterprises as its engine, interfacing in the area of investment is becoming more and more intensive. In terms of cooperation mechanisms, however, facilitation of investment and business activities seems to lag behind trade or monetary policies. This may also be the reflection of the stage of international cooperation at the global level in each of these three areas - with trade matters having a global regulatory body in the WTO, and global monetary issues being discussed in the IMF and, for seven industrialized countries, in so-called Group of Seven summit meetings. In the area of investment, a global framework is yet to emerge, and most of the cooperation efforts are taking the form of bilateral, plurilateral or multilateral investment treaties. It is an area where further international discussions should, and will, take place, both at the global and regional levels. Also, this is an area where trade- and finance-related issues should be dealt with in an integrated, inter-sectoral manner. In such activities, international bodies with comprehensive, inter-sectoral

mandates such as UNCTAD may be the best placed to undertake the work.

98. Monetary and fiscal coordination enhances both trade integration and investment cooperation. The most serious constraint to such cooperation is the overwhelming impact of global financial flows. Nevertheless, regional cooperation may prove to be useful in various domains such as foreign exchange and interest rate policies, the application of common indicators of monetary convergence, and of rules, legislation and operational procedures on banking and other financial policies.

99. For potential conflicts in foreign exchange and interest rate policies, regional cooperation may require a case-by-case compromise. For example, a grouping may find it reasonable to live with different systems of foreign exchange on condition that the levels of convertibility are similar. The possibility of disharmony may be also present in the adoption of policy convergence indicators, as regions are normally composed of countries with different levels of development and different histories of momentary and fiscal behaviour. Hence, requiring uniform benchmarks may be problematic. A developing region may need both realistic convergence indicators and enough flexibility in the legal imperativeness of these criteria.

100. In the area of rules and laws, integration groupings may face difficulties due to the divergence of national practices and their levels of advancement. A common regional strategy ought to envisage the mutual recognition of national practices wherever possible. Uniform standards should apply only to exceptional cases, such as a common nomenclature and glossary of concepts. As for the different levels of development, more advanced countries may consider offering technical assistance and training to less advanced countries.

101. In fiscal policies, cooperation ought to result in common criteria and commonly agreed limits to deficit and debt financing. Clashes of interest among member countries may stem from their endeavour to maximize their own deficit financing while limiting that of the grouping as a whole. There may hence be a need for distributing budget-deficit allowances among member countries, ideally based on pre-set criteria. In financing the fiscal deficits in local financial markets, the extensive use of government bonds and treasury bills in one country might unfairly divert the resources of the capital markets of others. Therefore, cooperation should focus on the elaboration of general guidelines and obligations of prior notification for major government bond and treasury bills issues.

102. An overall conclusion may be the need for a mechanism or a channel through which policy consultations and coordination can be done between corresponding Government bodies and the private sector. As a hypothesis, it may be argued that the design of a successful regional coordination strategy should start with the analysis of constraints to regional cooperation. Then representatives of the different sectors of countries should agree on a common programme of measures to remove the major constraints on regional economic activities. A next step is the translation of the programme into country-level programmes, with the involvement of all economic sectors. Simultaneously, complementary regional projects may be worked out for joint infrastructure development. The last, and the longest phase is the follow-up of decisions and commitments.

103. In view of the above, an adequate institutional backing of the preparation for and follow-

up of joint decisions would be of specific importance. This institutional mechanism of cooperation might be well placed for success in the case of an adherence to a practical, flexible bottom-up approach, and a focus of the institutional structure. Each integration grouping would then need to work out the concrete policy contents of such an approach.

# Annex tables

## Monetary and fiscal convergence indicators for MERCOSUR and AMU

**Table 1**
**Exchange rates and exchange rate indexes for MERCOSUR**

**Exchange rates**
(national currency per US dollar, period average)

| year | Argentina | Paraguay | Uruguay | Brazil |
|---|---|---|---|---|
| **1985** | 0.00006 | 306.7 | 0.1024 | 0.000000002 |
| **1986** | 0.00009 | 339.2 | 0.1520 | 0.000000005 |
| **1987** | 0.00021 | 550.0 | 0.2267 | 0.00000001 |
| **1988** | 0.00088 | 550.0 | 0.3594 | 0.0000001 |
| **1989** | 0.04233 | 1,056.2 | 0.6055 | 0.000001 |
| **1990** | 0.48759 | 1,229.8 | 1.1710 | 0.00002 |
| **1991** | 0.95355 | 1,325.3 | 2.0188 | 0.00015 |
| **1992** | 0.99064 | 1,500.3 | 3.0270 | 0.0016 |
| **1993** | 0.99895 | 1,744.3 | 3.9484 | 0.032 |
| **1994** | 0.99901 | 1,911.5 | 5.0529 | 0.639 |
| **1992.I** | 0.99095 | 1,439.2 | 2.6312 | 0.00054 |
| **1992.II** | 0.99052 | 1,458.4 | 2.9232 | 0.00097 |
| **1992.III** | 0.99059 | 1,517.1 | 3.1663 | 0.0017 |
| **1992.IV** | 0.99050 | 1,586.4 | 3.3871 | 0.0033 |
| **1993.I** | 0.99917 | 1,668.2 | 3.5944 | 0.0070 |
| **1993.II** | 0.99882 | 1,731.9 | 3.8330 | 0.014 |
| **1993.III** | 0.99900 | 1,764.0 | 4.0743 | 0.031 |
| **1993.IV** | 0.99880 | 1,813.3 | 4.2920 | 0.077 |
| **1994.I** | 0.99907 | 1,886.5 | 4.5597 | 0.207 |
| **1994.II** | 0.99883 | 1,916.7 | 4.8460 | 0.605 |
| **1994.III** | 0.99907 | 1,916.7 | 5.2573 | 0.899 |
| **1994.IV** | 0.99907 | 1,926.3 | 5.5487 | 0.846 |
| **1995.I** | 0.99900 | 1,961.1 | 5.8290 | 0.859 |
| **1995.II** | 1.00000 | 1,974.5 | 6.1383 | 0.906 |
| **1995.III** | 1.00000 | 1,968.6 | 6.5100 | 0.941 |
| **1995.IV** | 1.00000 | 1,977.4 | .. | 0.964 |

**Exchange rate indexes**
(US dollar per national currency, 1990=100)

| year | Argentina | Paraguay | Uruguay | Brazil |
|---|---|---|---|---|
| **1985** | 810,219.34 | 400.98 | 1,143.55 | 1,103,822.22 |
| **1986** | 517,062.57 | 362.56 | 770.39 | 500,725.81 |
| **1987** | 227,388.89 | 223.60 | 516.54 | 174,165.50 |
| **1988** | 55,708.02 | 223.60 | 325.82 | 26,069.07 |
| **1989** | 1,151.88 | 116.44 | 193.39 | 2,408.92 |
| **1990** | 100.00 | 100.00 | 100.00 | 100.00 |
| **1991** | 51.13 | 92.79 | 58.00 | 16.80 |
| **1992** | 49.22 | 81.97 | 38.69 | 1.51 |
| **1993** | 48.81 | 70.50 | 29.66 | 0.08 |
| **1994** | 48.81 | 64.34 | 23.17 | 0.004 |
| **1992.I** | 49.20 | 85.45 | 44.50 | 4.57 |
| **1992.II** | 49.23 | 84.33 | 40.06 | 2.57 |
| **1992.III** | 49.22 | 81.06 | 36.98 | 1.44 |
| **1992.IV** | 49.23 | 77.52 | 34.57 | 0.75 |
| **1993.I** | 48.80 | 73.72 | 32.58 | 0.35 |
| **1993.II** | 48.82 | 71.01 | 30.55 | 0.18 |
| **1993.III** | 48.81 | 69.72 | 28.74 | 0.08 |
| **1993.IV** | 48.82 | 67.82 | 27.28 | 0.03 |
| **1994.I** | 48.80 | 65.19 | 25.68 | 0.01 |
| **1994.II** | 48.82 | 64.16 | 24.16 | 0.004 |
| **1994.III** | 48.80 | 64.16 | 22.27 | 0.003 |
| **1994.IV** | 48.80 | 63.84 | 21.10 | 0.003 |
| **1995.I** | 48.81 | 62.71 | 20.09 | 0.003 |
| **1995.II** | 48.76 | 62.28 | 19.08 | 0.003 |
| **1995.III** | 48.76 | 62.47 | 17.99 | 0.003 |
| **1995.IV** | 48.76 | 62.19 | .. | 0.003 |

**Correlation of annual exchange rates (1985-94)**

| | Argentina | Paraguay | Uruguay | Brazil |
|---|---|---|---|---|
| Argentina | 1.00 | | | |
| Paraguay | 0.91 | 1.00 | | |
| Uruguay | 0.91 | 0.93 | 1.00 | |
| Brazil | 0.42 | 0.54 | 0.69 | 1.00 |

**Correlation of quarterly exchange rates (1992.I-95.III)**

| | Argentina | Paraguay | Uruguay | Brazil |
|---|---|---|---|---|
| Argentina | 1.00 | | | |
| Paraguay | 0.89 | 1.00 | | |
| Uruguay | 0.76 | 0.94 | 1.00 | |
| Brazil | 0.58 | 0.82 | 0.93 | 1.00 |

Source: IMF International Financial Statistics

**Monetary and fiscal convergence indicators for MERCOSUR and AMU (continued)**

**Table 2**

**Exchange rates and exchange rate indexes for AMU**

| | Exchange rates (national currency per US dollar, period average) | | | | | Exchange rate indexes (US dollar per national currency, 1990=100) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **year** | **Algeria** | **Mauritania** | **Morocco** | **Tunisia** | **Libya 1)** | **Algeria** | **Mauritania** | **Morocco** | **Tunisia** | **Libya** |
| **1985** | 4 773 | 77 085 | 10 602 | 0 8345 | 0 296051 | 187 68 | 104 57 | 77 74 | 105 25 | 91 16 |
| **1986** | 4 824 | 74 375 | 9 104 | 0 7940 | 0 313873 | 185 70 | 108 38 | 90 53 | 110 62 | 85 98 |
| **1987** | 4 936 | 73 878 | 8 359 | 0 8287 | 0 270629 | 181 48 | 109 11 | 98 60 | 105 99 | 99 72 |
| **1988** | 5 915 | 75 261 | 8 209 | 0 8578 | 0 285299 | 151 45 | 107 11 | 100 40 | 102 39 | 94 59 |
| **1989** | 7 609 | 83 051 | 8 488 | 0 9493 | 0 292150 | 117 73 | 97 06 | 97 10 | 92 52 | 92 37 |
| **1990** | 8 958 | 80 609 | 8 242 | 0 8783 | 0 269869 | 100 00 | 100 00 | 100 00 | 100 00 | 100 00 |
| **1991** | 18 473 | 81 946 | 8 707 | 0 9246 | 0 268399 | 48 49 | 98 37 | 94 66 | 94 99 | 100 55 |
| **1992** | 21 836 | 87 027 | 8 538 | 0 8844 | 0 301296 | 41 02 | 92 63 | 96 53 | 99 31 | 89 57 |
| **1993** | 23 345 | 120 806 | 9 299 | 1 0037 | 0 325013 | 38 37 | 66 73 | 88 63 | 87 51 | 83 03 |
| **1994** | 35 059 | 123 575 | 9 203 | 1 0116 | 0 359622 | 25 55 | 65 23 | 89 56 | 86 82 | 75 04 |
| **1992.I** | 22 182 | 81 840 | 8 666 | 0 9093 | 0 289001 | 40 38 | 98 50 | 95 11 | 96 59 | 93 38 |
| **1992.II** | 22 063 | 80 650 | 8 679 | 0 9021 | 0 277001 | 40 60 | 99 95 | 94 96 | 97 36 | 97 43 |
| **1992.III** | 21 000 | 76 093 | 8 164 | 0 8317 | 0 281286 | 42 66 | 105 93 | 100 96 | 105 60 | 95 94 |
| **1992.IV** | 22 100 | 109 523 | 8 643 | 0 8946 | 0 301296 | 40 53 | 73 60 | 95 36 | 98 18 | 89 57 |
| **1993.I** | 23 031 | 116 673 | 9 163 | 0 9843 | 0 296402 | 38 90 | 69 09 | 89 95 | 89 23 | 91 05 |
| **1993.II** | 22 833 | 120 660 | 9 063 | 0 9823 | 0 295159 | 39 23 | 66 81 | 90 94 | 89 41 | 91 43 |
| **1993.III** | 23 680 | 122 603 | 9 452 | 1 0217 | 0 314743 | 37 83 | 65 75 | 87 20 | 85 96 | 85 74 |
| **1993.IV** | 23 837 | 123 287 | 9 517 | 1 0267 | 0 325013 | 37 58 | 65 38 | 86 60 | 85 55 | 83 03 |
| **1994.I** | 24 130 | 124 860 | 9 597 | 1 0523 | 0 316036 | 37 12 | 64 56 | 85 88 | 83 46 | 85 39 |
| **1994.II** | 35 831 | 122 011 | 9 357 | 1 0257 | 0 308223 | 25 00 | 66 07 | 88 08 | 85 63 | 87 56 |
| **1994.III** | 38 482 | 123 240 | 8 965 | 0 9862 | 0 304238 | 23 28 | 65 41 | 91 94 | 89 06 | 88 70 |
| **1994.IV** | 41 791 | 124 190 | 8 892 | 0 9819 | 0 359622 | 21 44 | 64 91 | 92 69 | 89 45 | 75 04 |
| **1995.I** | 43 178 | 125 467 | 8 732 | 0 9686 | 0 336428 | 20 75 | 64 25 | 94 39 | 90 68 | 80 22 |
| **1995.II** | 45 923 | 127 190 | 8 436 | 0 9328 | 0 336293 | 19 51 | 63 38 | 97 70 | 94 16 | 80 25 |
| **1995.III** | 50 440 | 132 413 | 8 510 | 0 9381 | 0 348529 | 17 76 | 60 88 | 96 85 | 93 63 | 77 43 |
| **1995.IV** | 51 111 | 134 003 | 8 482 | .. | 0 353182 | 17 53 | 60 15 | 97 17 | .. | 76 41 |

**Correlation of annual exchange rates (1985-94)**

| | Algeria | Mauritania | Morocco | Tunisia | Libya |
|---|---|---|---|---|---|
| Algeria | 1 00 | | | | |
| Mauritania | 0 88 | 1 00 | | | |
| Morocco | 0 08 | 0 22 | 1 00 | | |
| Tunisia | 0 81 | 0 87 | 0 01 | 1 00 | |
| Libya | 0 68 | 0 80 | 0 42 | 0 53 | 1 00 |

**Correlation of quarterly exchange rates (1992.I-95.III)**

| | Algeria | Mauritania | Morocco | Tunisia | Libya |
|---|---|---|---|---|---|
| Algeria | 1 00 | | | | |
| Mauritania | 0 59 | 1 00 | | | |
| Morocco | -0 27 | 0 47 | 1 00 | | |
| Tunisia | 0 10 | 0 73 | 0 92 | 1 00 | |
| Libya | 0 79 | 0 76 | 0 08 | 0 38 | 1 00 |

Source IMF International Financial Statistics

1) End of period

**Monetary and fiscal convergence indicators for MERCOSUR and AMU (continued)**

**Table 3**

**Consumer price indexes and real exchange rates for MERCOSUR**

| | Consumer price indexes (1990=100) | | | | Memo item: | Real exchange rates (1990=100, Exchange rate index*CPI/USCPI) | | | |
|---|---|---|---|---|---|---|---|---|---|
| **year** | **Argentina** | **Paraguay** | **Uruguay** | **Brazil** | **United States** | **Argentina** | **Paraguay** | **Uruguay** | **Brazil** |
| **1985** | 0.007 | 29.10 | 5.60 | 0.004 | 82.40 | 68.83 | 141.61 | 77.72 | 50.90 |
| **1986** | 0.013 | 38.30 | 9.80 | 0.009 | 83.90 | 80.12 | 165.51 | 89.99 | 54.91 |
| **1987** | 0.029 | 46.70 | 16.10 | 0.03 | 87.00 | 75.80 | 120.02 | 95.59 | 60.66 |
| **1988** | 0.13 | 57.20 | 26.10 | 0.24 | 90.50 | 80.02 | 141.33 | 93.97 | 68.36 |
| **1989** | 4.14 | 72.40 | 47.10 | 3.29 | 94.90 | 50.29 | 88.83 | 95.98 | 83.56 |
| **1990** | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| **1991** | 272.00 | 124.30 | 202.00 | 500.00 | 104.20 | 133.48 | 110.69 | 112.45 | 80.60 |
| **1992** | 339.00 | 143.10 | 340.20 | 6,000.00 | 107.40 | 155.36 | 109.22 | 122.54 | 84.55 |
| **1993** | 375.00 | 169.20 | 524.30 | 134,800.00 | 110.60 | 165.50 | 107.86 | 140.59 | 94.12 |
| **1994** | 391.00 | 204.00 | 758.90 | 3,733,100.00 | 113.40 | 168.29 | 115.74 | 155.09 | 127.95 |
| **1992.I** | 320.00 | 135.50 | 281.40 | 1,900.00 | 106.10 | 148.40 | 109.13 | 118.04 | 81.76 |
| **1992.II** | 334.00 | 139.10 | 320.30 | 3,600.00 | 107.00 | 153.66 | 109.62 | 119.91 | 86.41 |
| **1992.III** | 347.00 | 146.60 | 360.80 | 6,300.00 | 107.80 | 158.44 | 110.24 | 123.78 | 83.90 |
| **1992.IV** | 357.00 | 150.90 | 398.40 | 12,300.00 | 108.60 | 161.82 | 107.72 | 126.83 | 84.65 |
| **1993.I** | 363.00 | 159.60 | 440.80 | 25,300.00 | 109.50 | 161.77 | 107.45 | 131.15 | 81.98 |
| **1993.II** | 374.00 | 166.00 | 496.70 | 55,100.00 | 110.40 | 165.38 | 106.77 | 137.45 | 88.54 |
| **1993.III** | 380.00 | 170.70 | 554.10 | 129,600.00 | 110.80 | 167.39 | 107.41 | 143.73 | 93.71 |
| **1993.IV** | 384.00 | 180.50 | 605.50 | 329,300.00 | 111.60 | 167.97 | 109.69 | 148.03 | 95.17 |
| **1994.I** | 385.00 | 193.60 | 659.30 | 930,600.00 | 112.30 | 167.32 | 112.38 | 150.77 | 99.42 |
| **1994.II** | 387.00 | 201.10 | 718.10 | 2,836,500.00 | 113.00 | 167.18 | 114.19 | 153.56 | 103.05 |
| **1994.III** | 394.00 | 207.40 | 786.20 | 5,391,500.00 | 114.00 | 168.67 | 116.73 | 153.61 | 130.66 |
| **1994.IV** | 398.00 | 214.10 | 871.90 | 5,773,600.00 | 114.50 | 169.64 | 119.38 | 160.70 | 148.03 |
| **1995.I** | 403.00 | .. | 952.60 | 6,171,800.00 | 115.50 | 170.30 | .. | 165.69 | 154.50 |
| **1995.II** | 404.00 | .. | 1,040.80 | 6,735,700.00 | 116.50 | 169.09 | .. | 170.43 | 158.49 |
| **1995.III** | 404.00 | .. | 1,128.10 | 7,214,600.00 | 117.00 | 168.36 | .. | 173.44 | 162.75 |

**Correlation of annual real exchange rates (1985-94)**

| | Argentina | Paraguay | Uruguay | Brazil |
|---|---|---|---|---|
| Argentina | 1.00 | | | |
| Paraguay | -0.27 | 1.00 | | |
| Uruguay | 0.91 | -0.41 | 1.00 | |
| Brazil | 0.69 | -0.61 | 0.85 | 1.00 |

**Correlation of quarterly real exchange rates (1992.I-94.IV)**

| | Argentina | Paraguay | Uruguay | Brazil |
|---|---|---|---|---|
| Argentina | 1.00 | | | |
| Paraguay | 0.43 | 1.00 | | |
| Uruguay | 0.91 | 0.69 | 1.00 | |
| Brazil | 0.62 | 0.92 | 0.80 | 1.00 |

Source: IMF International Financial Statistics

**Monetary and fiscal convergence indicators for MERCOSUR and AMU (continued)**

**Table 4**

**Consumer price indexes and real exchange rates for AMU**

| | Consumer price indexes (1990=100) | | | | Memo item: | Real exchange rates (1990=100, Exchange rate index*CPI/USCPI) | | | |
|---|---|---|---|---|---|---|---|---|---|
| **year** | **Algeria** | **Mauritania** | **Morocco** | **Tunisia** | **United States** | **Algeria** | **Mauritania** | **Morocco** | **Tunisia** |
| **1985** | 61 40 | 70 60 | 79 30 | 70 70 | 82 40 | 139 85 | 89 60 | 74 82 | 90 30 |
| **1986** | 68 90 | 75 80 | 86 30 | 75 10 | 83 90 | 152 50 | 97 92 | 93 12 | 99 01 |
| **1987** | 74 10 | 82 00 | 88 60 | 81 30 | 87 00 | 154 57 | 102 84 | 100 41 | 99 04 |
| **1988** | 78 40 | 83 10 | 90 70 | 87 10 | 90 50 | 131 20 | 98 35 | 100 62 | 98 54 |
| **1989** | 85 70 | 93 90 | 93 50 | 93 90 | 94 90 | 106 32 | 96 04 | 95 67 | 91 55 |
| **1990** | 100 00 | 100 00 | 100 00 | 100 00 | 100 00 | 100 00 | 100 00 | 100 00 | 100 00 |
| **1991** | 125 90 | 105 60 | 108 00 | 108 20 | 104 20 | 58 59 | 99 69 | 98 11 | 98 64 |
| **1992** | 165 80 | 116 30 | 114 20 | 114 50 | 107 40 | 63 33 | 100 30 | 102 65 | 105 88 |
| **1993** | 199 80 | 127 20 | 120 10 | 119 00 | 110 60 | 69 32 | 76 74 | 96 25 | 94 15 |
| **1994** | 257 80 | .. | 126 30 | 124 70 | 113 40 | 58 09 | .. | 99 75 | 95 47 |
| **1992.I** | 148 00 | 107 60 | 112 50 | 112 80 | 106 10 | 56 33 | 99 89 | 100 84 | 102 69 |
| **1992.II** | 161 90 | 113 60 | 114 60 | 113 70 | 107 00 | 61 43 | 106 11 | 101 71 | 103 46 |
| **1992.III** | 172 10 | 116 00 | 113 70 | 114 90 | 107 80 | 68 10 | 113 99 | 106 48 | 112 56 |
| **1992.IV** | 181 00 | 128 20 | 116 00 | 116 70 | 108 60 | 67 56 | 86 88 | 101 86 | 105 50 |
| **1993.I** | 189 30 | 124 80 | 117 50 | 117 60 | 109 50 | 67 24 | 78 74 | 96 52 | 95 83 |
| **1993.II** | 197 90 | 124 90 | 119 60 | 117 40 | 110 40 | 70 33 | 75 58 | 98 52 | 95 08 |
| **1993.III** | 200 60 | 130 20 | 121 30 | 119 50 | 110 80 | 68 49 | 77 26 | 95 46 | 92 71 |
| **1993.IV** | 211 30 | 128 90 | 122 00 | 121 70 | 111 60 | 71 15 | 75 52 | 94 67 | 93 29 |
| **1994.I** | 229 60 | 127 90 | 124 50 | 122 80 | 112 30 | 75 90 | 73 53 | 95 21 | 91 27 |
| **1994.II** | 248 10 | 131 50 | 126 30 | 123 40 | 113 00 | 54 89 | 76 88 | 98 45 | 93 51 |
| **1994.III** | 265 10 | .. | 126 00 | 125 00 | 114 00 | 54 13 | .. | 101 61 | 97 65 |
| **1994.IV** | 288 60 | .. | 128 30 | 127 50 | 114 50 | 54 03 | .. | 103 86 | 99 60 |
| **1995.I** | 315 30 | .. | 132 80 | 129 70 | 115 50 | 56 64 | .. | 108 53 | 101 83 |
| **1995.II** | 328 10 | .. | 134 80 | 131 30 | 116 50 | 54 94 | .. | 113 05 | 106 12 |
| **1995.III** | 341 10 | .. | 134 00 | 133 40 | 117 00 | 51 78 | .. | 110 92 | 106 75 |

**Correlation of annual real exchange rates (1985-93)**

| | Algeria | Mauritania | Morocco | Tunisia |
|---|---|---|---|---|
| Algeria | 1 00 | | | |
| Mauritania | 0 24 | 1 00 | | |
| Morocco | -0 36 | 0 41 | 1 00 | |
| Tunisia | -0 26 | 0 58 | 0 72 | 1 00 |

**Correlation of quarterly real exchange rates (1992.I-94.II)**

| | Algeria | Mauritania | Morocco | Tunisia |
|---|---|---|---|---|
| Algeria | 1 00 | | | |
| Mauritania | -0 36 | 1 00 | | |
| Morocco | -0 35 | 0 89 | 1 00 | |
| Tunisia | -0 23 | 0 91 | 0 96 | 1 00 |

Source IMF International Financial Statistics

**Monetary and fiscal convergence indicators for MERCOSUR and AMU (continued)**

**Table 5**

**Interest rates, inflation rates and real interest rates**

**Interest rates (per cent per annum)**

| year | Argentina Money market rates | Paraguay Lending rates | Uruguay | Brazil Bank rates | year | Mauritania Lending rates | Morocco | Tunisia Money market rates | Libya Lending rates |
|---|---|---|---|---|---|---|---|---|---|
| **1985** | 1,161.00 | .. | 94.60 | 380.00 | **1985** | 12.00 | 7.80 | 10.28 | 7.00 |
| **1986** | 135.00 | .. | 94.70 | 89.00 | **1986** | 12.00 | 8.80 | 9.95 | 7.00 |
| **1987** | 253.00 | .. | 95.80 | 401.00 | **1987** | 12.00 | 9.00 | 10.00 | 7.00 |
| **1988** | 524.00 | .. | 102.00 | 2,282.00 | **1988** | 12.00 | 9.00 | 9.15 | 7.00 |
| **1989** | 1,387,179.00 | .. | 127.60 | 38,341.00 | **1989** | 10.00 | 9.00 | 9.40 | 7.00 |
| **1990** | 9,695,422.00 | 31.00 | 174.50 | 1,083.00 | **1990** | 10.00 | 9.00 | 11.50 | 7.00 |
| **1991** | 71.00 | 34.94 | 152.90 | 2,494.00 | **1991** | 10.00 | 9.00 | 11.79 | 7.00 |
| **1992** | 15.00 | 27.96 | 117.80 | 1,489.00 | **1992** | 10.00 | .. | 11.73 | 7.00 |
| **1993** | 6.00 | 30.78 | 97.30 | 5,757.00 | **1993** | .. | .. | 10.48 | 7.00 |
| **1994** | 8.00 | 32.46 | 95.10 | 56.00 | **1994** | .. | 10.00 | 8.81 | .. |

**Inflation rates**

(percentage, annualized growth rate)

| year | Argentina | Paraguay | Uruguay | Brazil | year | Algeria | Mauritania | Morocco | Tunisia |
|---|---|---|---|---|---|---|---|---|---|
| **1985** | 600.00 | 25.43 | 75.00 | 245.45 | **1985** | 10.63 | .. | 7.74 | 7.28 |
| **1986** | 85.71 | 31.62 | 75.00 | 142.11 | **1986** | 12.21 | 7.37 | 8.83 | 6.22 |
| **1987** | 123.08 | 21.93 | 64.29 | 229.35 | **1987** | 7.55 | 8.18 | 2.67 | 8.26 |
| **1988** | 348.28 | 22.48 | 62.11 | 683.17 | **1988** | 5.80 | 1.34 | 2.37 | 7.13 |
| **1989** | 3,086.92 | 26.57 | 80.46 | 1,287.19 | **1989** | 9.31 | 13.00 | 3.09 | 7.81 |
| **1990** | 2,313.71 | 38.12 | 112.31 | 2,937.85 | **1990** | 16.69 | 6.50 | 6.95 | 6.50 |
| **1991** | 172.00 | 24.30 | 102.00 | 400.00 | **1991** | 25.90 | 5.60 | 8.00 | 8.20 |
| **1992** | 24.63 | 15.12 | 68.42 | 1,100.00 | **1992** | 31.69 | 10.13 | 5.74 | 5.82 |
| **1993** | 10.62 | 18.24 | 54.12 | 2,146.67 | **1993** | 20.51 | 9.37 | 5.17 | 3.93 |
| **1994** | 4.27 | 20.57 | 44.75 | 2,669.36 | **1994** | 29.03 | .. | 5.16 | 4.79 |

**Real interest rates (per cent per annum)**

| year | Argentina Money market rates | Paraguay Lending rates | Uruguay | Brazil Bank rates | year | Mauritania Lending rates | Morocco | Tunisia Money market rates |
|---|---|---|---|---|---|---|---|---|
| **1985** | 80.14 | .. | 11.20 | 38.95 | **1985** | .. | 0.05 | 2.79 |
| **1986** | 26.54 | .. | 11.26 | -21.93 | **1986** | 4.32 | -0.03 | 3.51 |
| **1987** | 58.24 | .. | 19.18 | 52.12 | **1987** | 3.53 | 6.17 | 1.61 |
| **1988** | 39.20 | .. | 24.61 | 204.15 | **1988** | 10.52 | 6.48 | 1.88 |
| **1989** | 43,430.36 | .. | 26.12 | 2,671.14 | **1989** | -2.65 | 5.74 | 1.48 |
| **1990** | -401,585.48 | -5.16 | 29.29 | -61.06 | **1990** | 3.29 | 1.92 | 4.70 |
| **1991** | -37.13 | 8.56 | 25.20 | 418.80 | **1991** | 4.17 | 0.93 | 3.32 |
| **1992** | -7.73 | 11.15 | 29.32 | 32.42 | **1992** | -0.12 | .. | 5.58 |
| **1993** | -4.18 | 10.61 | 28.02 | 160.70 | **1993** | .. | .. | 6.30 |
| **1994** | 3.58 | 9.86 | 34.79 | -94.37 | **1994** | .. | 4.60 | 3.84 |

Source: IMF International Financial Statistics

**Monetary and fiscal convergence indicators for MERCOSUR and AMU (continued)**

**Table 6**

**Money supply and GDP**

**Money supply**

(national currency)

| year | Argentina (million) | Paraguay (billion) | Uruguay (million) | Brazil (thousand) |
|---|---|---|---|---|
| **1985** | 0.35 | 125.20 | 45.99 | 0.04 |
| **1986** | 0.66 | 158.67 | 84.00 | 0.17 |
| **1987** | 1.42 | 243.67 | 135.00 | 0.52 |
| **1988** | 6.40 | 330.16 | 221.60 | 2.62 |
| **1989** | 273.00 | 434.89 | 383.20 | 37.70 |
| **1990** | 3,068.00 | 558.06 | 770.30 | 917.00 |
| **1991** | 7,626.00 | 738.91 | 1,528.10 | 4,856.00 |
| **1992** | 11,364.00 | 905.03 | 2,583.30 | 52,539.00 |
| **1993** | 15,119.00 | 1,054.01 | 4,073.90 | 1,113,000.00 |
| **1994** | | 1,370.31 | 5,678.50 | |

| year | Algeria | Mauritania | Morocco (billion) | Tunisia | Libya |
|---|---|---|---|---|---|
| **1985** | 202.23 | 12.173 | 42.820 | 2.059 | 3.4922 |
| **1986** | 204.82 | 11.393 | 50.029 | 2.112 | 3.0414 |
| **1987** | 223.91 | 13.397 | 54.489 | 2.126 | 3.4386 |
| **1988** | 252.21 | 14.032 | 59.578 | 2.494 | 3.0116 |
| **1989** | 250.01 | 17.028 | 66.046 | 2.524 | 3.5214 |
| **1990** | 270.40 | 17.622 | 90.659 | 2.678 | 4.4522 |
| **1991** | 324.47 | 19.376 | 103.709 | 2.697 | 4.2928 |
| **1992** | 377.00 | 20.202 | 110.082 | 2.894 | 4.9872 |
| **1993** | 450.32 | 20.938 | 117.083 | 2.998 | |
| **1994** | 485.65 | 19.816 | 128.284 | 3.319 | |

**GDP**

(national currency)

| year | Argentina (million) | Paraguay (billion) | Uruguay (million) | Brazil (thousand) |
|---|---|---|---|---|
| **1985** | 5.31 | 1,393.90 | 478.60 | 0.50 |
| **1986** | 9.98 | 1,833.80 | 890.50 | 1.34 |
| **1987** | 23.33 | 2,493.60 | 1,661.50 | 4.21 |
| **1988** | 111.06 | 3,319.10 | 2,725.50 | 31.49 |
| **1989** | 3,244.00 | 4,608.40 | 4,839.30 | 400.00 |
| **1990** | 68,922.00 | 6,474.40 | 9,784.00 | 10,900.00 |
| **1991** | 180,897.00 | 8,280.80 | 20,271.30 | 57,100.00 |
| **1992** | 226,847.00 | 9,670.80 | 35,867.60 | 620,200.00 |
| **1993** | 257,570.00 | 11,991.70 | 53,116.90 | 14,039,000.00 |
| **1994** | 281,645.00 | 14,960.10 | 78,516.90 | 355,567,000.00 |

| year | Algeria | Mauritania | Morocco (billion) | Tunisia | Libya |
|---|---|---|---|---|---|
| **1985** | 291.60 | 53.230 | 129.51 | 6.910 | 7.203 |
| **1986** | 296.60 | 62.699 | 154.73 | 7.021 | 6.473 |
| **1987** | 312.70 | 69.171 | 156.69 | 7.997 | |
| **1988** | 320.00 | 72.053 | 182.30 | 8.685 | |
| **1989** | 391.80 | 81.517 | 193.93 | 9.590 | |
| **1990** | 532.50 | 84.615 | 213.99 | 10.816 | |
| **1991** | 789.50 | 93.050 | 240.76 | 12.029 | |
| **1992** | 969.00 | | 245.57 | 13.706 | |
| **1993** | 1,093.10 | | | 14.606 | |
| **1994** | | | | 15.867 | |

**Money supply per GDP**

(per cent)

| year | Argentina | Paraguay | Uruguay | Brazil |
|---|---|---|---|---|
| **1985** | 6.60 | 8.98 | 9.61 | 7.65 |
| **1986** | 6.65 | 8.65 | 9.43 | 12.43 |
| **1987** | 6.08 | 9.77 | 8.13 | 12.45 |
| **1988** | 5.76 | 9.95 | 8.13 | 8.33 |
| **1989** | 8.42 | 9.44 | 7.92 | 9.42 |
| **1990** | 4.45 | 8.62 | 7.87 | 8.41 |
| **1991** | 4.22 | 8.92 | 7.54 | 8.50 |
| **1992** | 5.01 | 9.36 | 7.20 | 8.47 |
| **1993** | 5.87 | 8.79 | 7.67 | 7.93 |
| **1994** | | 9.16 | 7.23 | |

| year | Algeria | Mauritania | Morocco | Tunisia | Libya |
|---|---|---|---|---|---|
| **1985** | 69.35 | 22.87 | 33.06 | 29.80 | 48.48 |
| **1986** | 69.06 | 18.17 | 32.33 | 30.08 | 46.99 |
| **1987** | 71.61 | 19.37 | 34.78 | 26.58 | |
| **1988** | 78.82 | 19.47 | 32.68 | 28.72 | |
| **1989** | 63.81 | 20.89 | 34.06 | 26.32 | |
| **1990** | 50.78 | 20.83 | 42.37 | 24.76 | |
| **1991** | 41.10 | 20.82 | 43.08 | 22.42 | |
| **1992** | 38.91 | | 44.83 | 21.11 | |
| **1993** | 41.20 | | | 20.53 | |
| **1994** | | | | 20.92 | |

Source: IMF International Financial Statistics

**Monetary and fiscal convergence indicators for MERCOSUR and AMU (continued)**

**Table 7**

**Balance of government finance**

**Balance of government finance**

(national currency)

| year | Argentina | Paraguay | Uruguay | Brazil |
|---|---|---|---|---|
| | (million) | (billion) | (million) | (thousand) |
| **1985** | -0.29 | -6.91 | -1.17 | -0.01 |
| **1986** | -0.20 | 0.52 | -0.60 | -0.02 |
| **1987** | -0.67 | -0.96 | -1.40 | -0.05 |
| **1988** | -1.50 | 21.67 | -4.56 | -0.48 |
| **1989** | -21.50 | 112.53 | -146.00 | -7.43 |
| **1990** | -226.10 | 189.59 | 36.00 | -672.00 |
| **1991** | -963.00 | -12.92 | 184.00 | -549.00 |
| **1992** | -73.00 | 77.69 | 222.00 | -24,389.00 |
| **1993** | -1,574.00 | 138.67 | -304.00 | |
| **1994** | -1,885.70 | | -2,308.00 | |

| year | Morocco | Tunisia |
|---|---|---|
| | (billion) | |
| **1985** | -9.424 | -0.3542 |
| **1986** | -11.872 | -0.5109 |
| **1987** | -7.025 | -0.3721 |
| **1988** | -5.841 | -0.3269 |
| **1989** | -9.951 | -0.4116 |
| **1990** | -4.760 | -0.5855 |
| **1991** | -5.083 | -0.4970 |
| **1992** | -3.368 | -0.3490 |
| **1993** | | |
| **1994** | | |

**Balance of government finance per GDP**

(per cent)

| year | Argentina | Paraguay | Uruguay | Brazil |
|---|---|---|---|---|
| **1985** | -5.51 | -0.50 | -0.24 | -1.11 |
| **1986** | -1.97 | 0.03 | -0.07 | -1.33 |
| **1987** | -2.86 | -0.04 | -0.08 | -1.20 |
| **1988** | -1.35 | 0.65 | -0.17 | -1.52 |
| **1989** | -0.66 | 2.44 | -3.02 | -1.86 |
| **1990** | -0.33 | 2.93 | 0.37 | -6.17 |
| **1991** | -0.53 | -0.16 | 0.91 | -0.96 |
| **1992** | -0.03 | 0.80 | 0.62 | -3.93 |
| **1993** | -0.61 | 1.16 | -0.57 | |
| **1994** | -0.67 | .. | -2.94 | |

| year | Morocco | Tunisia |
|---|---|---|
| **1985** | -7.28 | -5.13 |
| **1986** | -7.67 | -7.28 |
| **1987** | -4.48 | -4.65 |
| **1988** | -3.20 | -3.76 |
| **1989** | -5.13 | -4.29 |
| **1990** | -2.22 | -5.41 |
| **1991** | -2.11 | -4.13 |
| **1992** | -1.37 | -2.55 |
| **1993** | .. | .. |
| **1994** | .. | .. |

Source IMF International Financial Statistics